Montana's Export Handbook

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This publication does not constitute an endorsement by the Montana Department of Commerce of any organizations listed. An independent check is recommended prior to any business arrangement considered.

Because this information is current only to the date of compilation, this publication should not be considered a complete listing of export procedures including: methods of market entry, foreign export representation, financial considerations, pricing and product promotion, methods of international communication, packing methods, required documentation, or transportation procedures.

Firms and individuals who wish to obtain further information are invited to contact the organizations referenced within this handbook, or contact the Small Business Development Center's International Trade Office of the Montana Department of Commerce, 1424 9th Avenue, Helena, Montana 59620.

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INTRODUCTION

At the end of each chapter you will find a worksheet containing a series of questions for you to answer. Most of them are yes/no questions. Although there are no right or wrong answers, a "yes" response is preferable for the majority of the questions. However, some require a "no" response and others are simply designed to make you consider the point in question. Decide for yourself what you feel to be the preferred answer and seriously consider the consequences of that aspect of exporting if you answered the opposite.

These worksheets require a lot of thought and time. You may find you can't complete one worksheet before moving on to the next. This is expected. It is recommended that you return to the worksheets to answer the questions left blank, change answers when necessary, and update information.

These worksheets, by no means encompass all the aspects of exporting you need to consider. You are encouraged to make additional notes, write down any questions, and seek any information not contained in the chapter.

PART I:

ANALYSIS

Chapter 1: Are You Ready to Export?

The key to successful exporting is to make the right product available at the right time in the right market at an affordable price which will give your firm an acceptable profit. Becoming a successful exporter does not happen overnight. Major investments in both money and time are necessary. There is often a time lapse of anywhere from six months to a year before exporters see any results. Therefore, your decision to export must be a well-informed one. Time, effort and money spent on research before beginning an export operation can reduce losses resulting from impulsive decisions made in unfamiliar circumstances.

There are several areas that should be considered when assessing your export potential: your interests and objectives; your firm's capabilities and resources; your product's export potential; and, your firm's commitment to exporting. This assessment can be done in-house or with the aid of expert counseling. The following section will guide you through an analysis of your export potential.

First, ask yourself why you want to export. Is expanding your market through exporting the logical and proper next step for your business? Or should you look into expanding your domestic market? Does exporting complement both the short and long-range goals of your company? What are the objectives you hope to achieve from exporting? **REMEMBER:** Exporting will not save an unprofitable domestic operation. And although doing well domestically is not a sure sign you'll be a successful exporter, poor domestic sales almost always assures international failure.

Nonetheless, there are a number of good reasons why a company should consider exporting:

1. Export markets can provide new growth areas when domestic markets are saturated.

2. Foreign buyers tend to purchase in larger quantities than do domestic customers, due to time lag and shipping costs inherent in international trade.

3. Declines in sales caused by downturns in the domestic economy may be offset by export sales. Also, if products are seasonal, exporting to countries in the southern hemisphere may reduce seasonal fluctuations in orders and production.

4. Because the additional volume of export sales

usually does not add to the general overhead, real profit margins are often larger on these sales.

5. Credit losses on overseas sales seldom exceed one percent of total sales--an average far below that of domestic sales.

Once you have decided to continue looking into the prospects of exporting your product, the next step is to **assess your firm's resources and capabilities.** It is essential that the resources are available to your firm before entering into an export operation. **Do not overextend the capacity of your firm!**

In assessing the resources and capabilities of your firm, several questions should be answered:

- What percentage of resources and/or plant capacity is currently being used to meet domestic demand? Do you have enough capacity to service a new market?
- Would the increased production necessary to meet projected foreign demand cause a possible problem of over-expansion?
- What are the capabilities of your personnel? Do any of them have previous experience in exporting? What training will be necessary? How will this training be provided? Will additional personnel be needed?
- What funds are available to increase production and set up operations? Increased production and the costs related to increased market penetration can require substantial cash investment.
- Is your product one of high technology or of a sensitive nature requiring government approval prior to exporting?

If the answers to these questions are encouraging, and you still wish to proceed, **you must now look closely, and *objectively*, at your product and its export potential.**

First and foremost, there must be a need for your product in the target market. Trying to sell waterskis in the desert would probably not be a successful operation. Although the next section deals with evaluating prospective markets, those with no need for your product can be eliminated at this time.

Occasionally, there are cultural or technical obstacles prohibiting the sale of your product in a particular market. Depending on the conditions, these obstacles may be overcome by the modification of your product. Some products may need to be redesigned to metric standards, while appliances will need to conform to local electrical current. Overcoming cultural barriers may be as simple as changing the color of your product. If you are not willing or able to modify your product, you may not be ready to export.

Another aspect you must look at is the competitiveness of your firm and its product. Is a similar product being sold in your target market? Does your product compare favorably in price and quality to this product? Or does your competitor have a price advantage due to lower labor or raw materials costs? Is there a uniqueness about your product that would cause potential customers to buy your product over that of an already established supplier?

A final consideration is after-sales service. If necessary, are you both willing and able to provide this service? Domestically, is this service provided directly by you or through a distributor? How would you provide this service on an international basis? (International distributors are discussed in Chapter 4, so this question will be looked at again in the context of choosing a method of penetrating a market.)

By looking at these various aspects, you should be able to determine whether or not your firm and its product are good candidates for a successful export operation. At this stage, if you feel all of the above conditions can be met, **you are ready to make a commitment to exporting. NOTE:** A major pitfall often encountered by new-to-export firms is an insufficient commitment by top management to resolve the initial difficulties and meet the financial requirements of exporting. It may take more time and effort to establish yourself in a foreign market than in domestic ones. And although start-up costs and delays may seem difficult to justify when compared to your established domestic market, a long-range view of this process and its potential will carry you through the early difficulties. If you have laid a good foundation for your export business, the benefits gained should eventually outweigh your investment. Make sure your entire staff is committed to bear the burden of the early difficulties in order to become a successful exporter.

At this time, an export strategy should be devised. To be successful at exporting, you must first clearly define your goals, objectives, and possible problems. Next, you must develop a definite plan to accomplish your objectives despite the problems involved. Your international marketing plan should include 1) your firm's immediate and long-range export objectives, and how these objectives fit in with the firm's overall goals; 2) a time frame in which these objectives will occur, as well as a schedule of the activities necessary to reach these objectives; and 3) the allocation of resources among these activities. You should also include a list of countries or regions that are thought to represent the best opportunities for your product, marketing tactics that will be used to penetrate these areas, and your export budget.

It is important that you write this plan down and that you give a copy of it, and all later revisions to each individual

involved in your firm's export operation. A written version is much easier to transmit and more difficult to misunderstand than verbal communications. Thus, everyone involved will understand what is expected of them and the time frame in which they are to perform their duties.

This plan should not be written in stone, as it may change materially as you evaluate different markets and alternative methods of entry. Also, after you have gained some experience, you may find exporting more profitable than expected and you might want to expand your budget. Keep a current copy close and re-evaluate it often.

Unless you are fortunate enough to possess a staff with considerable export expertise, you will not be able to take the crucial step of assessing your readiness to export without qualified outside guidance. The Montana Department of Commerce and the nearest District Office of the U.S. Department of Commerce can provide export counseling to interested firms. Many other groups, including commercial banks, Industry Trade Associations, and other government offices can lend experienced, expert guidance to companies that are starting an export trade.

WARNING: No matter how far your export plans have proceeded, you can, **and should**, abandon your plans if there are strong indications that you will not be successful in your export venture. Unsatisfactory answers to your analysis might be a tip that the potential benefits are not great enough to warrant an investment risk by your firm required to enter foreign markets at this time.

Chapter 1 Worksheet : Are You Ready to Export?

1. Resources and Capabilities

	Yes	No
Is the percentage of plant capacity available to you to service a new market adequate?	___	___
Is there a possibility of over-expansion?	___	___
Do any of your staff have export experience?	___	___
Are you willing and able to provide training or hire additional personnel if necessary?	___	___
Can you obtain financing for your export operations?	___	___
Do you need government approval to export your product?	___	___

2. Your Product's Potential

Is there a need for your product in your target market?	___	___
If necessary, are you willing and able to modify your product?	___	___
Is your product competitive with similar products in your target market?	___	___
If necessary, are you willing and able to provide after-sales service for your product?	___	___

3. Your Export Strategy

Take some time and write a preliminary export plan, including items discussed in this chapter. If possible, have several people in the firm present their ideas for this plan and incorporate them into a strong first draft. If you feel it would be helpful at this time, get help from a person experienced in exporting. This can be a fellow business person, or a staff member of the Montana Department of Commerce or the U.S. Department of Commerce, who is involved in international trade.

Keep a copy of your export plan. You will be asked to make any necessary changes after each chapter.

At this time, do you feel you are ready to proceed with your plans to export? ___ ___

Chapter 2: Selecting a Market

After concluding that your firm and its product have the potential required for success in the export field, the next step is to decide where to export. Not all foreign markets will be equally receptive to your product line nor equally as profitable. When beginning an export operation, it is a good idea to start small, choosing one or two countries which will offer the most immediate return on your firm's investment. Once you have successfully established the reputation of your company and its products there, you can expand your export operations from this base to other markets. In the previous section, you eliminated countries with no need for your product from your export plan. This section is aimed at helping you eliminate countries with undesirable elements and narrow your selection to a handful of potential markets.

Most of the market research can be done at home, using various sources of information. While conducting this research, you should concentrate on two basic types of data: **trade statistics and economic statistics.**

Trade statistics supply import and export data on various products which move in international trade. These statistics can help you pinpoint which countries are likely markets for your product line. In your research you should consider the following aspects:

A. whether or not the country already imports large quantities of your firm's type of product from the United States. This information is helpful because: 1) local producers are not so well established to exclude outsiders from the market, and 2) trade and other barriers are not critical factors barring the importation of your firm's type of product;

B. whether or not U.S. export sales trends to that country are in a growth stage, maintaining the status quo, or in a stage of decline;

C. whether or not the sales volume is steady or erratic;

D. whether or not political, religious, or ideological pressures have a bearing on sales and if these pressures are likely to change; and

E. whether or not exports to that country are tied to U.S. aid.

Economic statistics can similarly provide you with useful information in your evaluation of markets. This includes:

A. the level of economic development of the country (GNP, per capita income, disposable income);

B. the stage of development of its resource and industrial bases;

C. import regulations and quotas, taxes, duties;

D. current market size and market growth trends; and

E. the stability of the exchange rate and the availability of foreign currency.

The U.S. Department of Commerce offers a wide range of market research programs that can help you select a market. The Department also offers a number of publications which chart industry trends, market trends in specific countries, etc. Among these publications are the following:

- "Monthly Exports and Imports-SITC* Commodity by Country" (FT 925) is a publication by the Bureau of Census, which reveals whether your product or one similar is being exported from the U.S., the quantity and dollar value of these exports and to where they are being exported. (*SITC: Standard International Trade Classification.)
- Foreign Economic Trends and Their Implications for the United States (FET) are a series of country-by-country reports prepared by U.S. Embassies and consulates abroad which give in-depth reviews of current business conditions, current and near-term prospects, the latest available data on the gross national product, foreign trade, wage and price indexes, unemployment rates, and construction starts. The reports are of particular value for their analysis of current developments and the implications for future U.S. trade.
- Overseas Business Reports (OBR) contain basic background data needed to evaluate potential markets. The reports examine all relevant aspects of the local business environment; laws, government involvement, tariff policy, exchange and taxation regulation, growth industries, trade statistics and national political climate analysis. Outlooks for U.S. trade with countries and geographical regions are issued semiannually. Selected statistical reports on the direction, volume, and nature of U.S. foreign trade are also published.

Subscription and other information on the above-mentioned publications can be obtained by writing

Superintendent of Documents
U.S. Government Printing Office
Washington D.C. 20402.

Single copies are available from

Publications Sales Branch
Room 1617
U.S. Department of Commerce
Washington, D.C. 20230.

- Market Shares Reports are published reports which provide the basic data needed by exporters to: 1) evaluate overall trends in the size of markets; 2) measure changes in the import demand for specific products; 3) compare the competitive position of U.S. and foreign exporters; 4) select distribution centers for U.S. products abroad; and 5) identify existing and potential markets for U.S. components, parts, and accessories. These reports are available by country or commodity. The country reports provide a basis for examining the relative shifts in import demand in each of 88 countries for approximately 900 manufactured products. The commodity reports tabulate the value of exports from 14 major industrial nations and show the U.S. share of exports to the world. For a free catalog of available reports, write to

National Technical Information Service
5285 Port Royal Road
Springfield, Virginia 22161.

Other aspects that should be included in your evaluation of a particular market are an analysis of the political environment, climatic conditions of the country and how they may affect your product, the geographical distribution of potential customers, the existing transportation facilities in the country (its availability, cost and reliability), and the business and social customs of the country.

This last area will be the most difficult to assess from home. Through its relations with organizations such as the Japan External Trade Organization (JETRO) and the American Institute in Taiwan (AIT), the Montana Department of Commerce can help you in your evaluation of business climates in various countries. The Department may also be able to provide contacts if you should wish to visit those countries with the most potential in order to gain firsthand information on local customs. Keep in mind that it is often a good idea to treat your first trip to a country as a reconnaissance trip, and not one oriented toward sales.

Armed with the information you have gathered, you should now be able to choose one or two markets which will be fairly easy to penetrate and which have stable economic, political and business conditions. Remember, choose that market which will produce the highest short-term profits. Once you have established yourself in the world market, you can go back to your evaluations (making sure you update the information on current conditions) and choose

countries in which the short-term outlook is not as favorable as your initial market, but for which the long-term picture is promising.

If you would rather not take the time and trouble to conduct the market research yourself, there are firms that specialize in this specific area. But there are only a limited number of organizations truly qualified in this respect, and caution should be used when employing one of these firms. Many firms will do nothing more than assemble materials readily available to anyone and sum up the information with broad conclusions of little value. Therefore, be especially wary of those firms that 1) contacted you first, 2) are known only through advertisements or 3) appear to be using the "hard sell" approach. Before selecting any consulting firm, you should ask to see samples of the work the firm has done and, if possible, obtain specific recommendations from the firm's previous clients.

Also, your money can be spent much more productively if you know exactly what you want before hiring a consultant. With the help of the publications mentioned earlier, do as much of the preliminary research yourself. The consultant can then spend time gathering information not available to you.

Data on U.S. management consultant firms can be obtained from the Chamber of Commerce of the United States, 1615 H Street, N.W., Washington, D.C. 20062. The International Chamber of Commerce, 1212 Avenue of the Americas, New York, New York 10036, has information on consulting firms around the world.

Chapter 2 Worksheet : Selecting a Market
(Complete this worksheet for each prospective market.)

1. Trade Statistics

	Yes	No
Does the country import large quantities of your type of product?	___	___
Are U.S. export sales to this country in a growth stage?	___	___
Are the sales volume to this country steady?	___	___
Do political, religious or ideological pressures affect sales?	___	___
Are exports to the country tied to U.S. aid?	___	___

2. Economic Statistics

Does the country have a high level of economic development?	___	___
Are the resource and industrial bases of the country adequately developed?	___	___
Will import regulations, quotas, taxes or duties negatively affect the import of your product into the country?	___	___
Is the current market size large enough to create adequate demand to justify your entering the market?	___	___
Does potential market size justify your entering now?	___	___
Is the exchange rate stable?	___	___
Is the currency of the market readily available?	___	___

3. Miscellaneous Aspects

Are the attitudes in the country generally positive toward the U.S.?	___	___
Is the political leadership of the country stable?	___	___
Will the country's climate adversely affect your product?	___	___
Are the existing transportation facilities in the country adequate for your needs?	___	___

	Yes	No
If you employed a management consultant firm, was the information you received on the market favorable?	___	___
Did it reveal any problems which should be resolved before you attempt to enter the country?	___	___

4. Your Export Strategy

Take out the marketing plan you drew up as one of the exercises on the last worksheet. Incorporate into this plan the names of the country or countries in which you plan to begin your export operations.

Are you ready to proceed with your plans to export? ___ ___

Chapter 3: Methods of Market Entry

Once you have established which markets you want to enter, your next decision is what method to use to get your product into the retail channels in that country. This decision will depend, among other things, on the existing channels of distribution and customary business practices within the target market. Therefore, you may choose different methods of entry for different markets. Also, the methods are not mutually exclusive, and you may find it more profitable to use several methods. Before deciding what method to use, you and your firm must decide how much control you wish to retain over your product. The degree of sophistication and the after-sales service requirements for the product, as well as your firm's financial resources, will also be determining factors in choosing an entry mode.

There are two basic approaches to selling internationally: direct and indirect sales. Within both are various alternatives, each with its own advantages and disadvantages.

INDIRECT SELLING:

This method makes use of intermediaries located in the United States. International sales contracts, negotiations, and product delivery are the responsibility of this intermediary. It is the less expensive of the two entry methods, because the intermediary pays the expenses associated with penetrating the market. If your firm does not have the time, personnel or money to develop a foreign market, using an intermediary can be a productive arrangement.

There are, however, disadvantages to this method. The manufacturer loses control over the marketing, promotion, and pricing of his product. The profit margin on indirect sales is less than that of direct sales. Also, because you, the manufacturer would have no contact with the foreign consumer, your firm's international reputation would be a reflection of the intermediary's reputation.

Indirect methods of exporting include:

- **Export Management Companies** (EMCs). The EMC is an independent firm contracted by manufacturers to act as their export department. Usually, an EMC will represent several manufacturers of allied but non-competitive products. EMC's also provide full export management services including market research, appointing overseas distributors or commission representatives, exhibiting a client's products at trade shows, and handling financing, advertising, shipping and documentation.

EMCs usually pay a manufacturer according to his normal domestic terms, while often extending lines of credit to their overseas customers. The ability of an EMC to grant such terms is one of its strongest selling points. This benefits the manufacturer and the foreign consumer, enabling both to avoid financial difficulties.

In return for the expertise and advantages it provides the manufacturer, an EMC usually requires a designated period of time for exclusive rights to the sale of the product in its territory. They expect to be billed at the lowest net wholesale distributor's price, less a sales commission, which is usually set at 10 to 20%.

When selecting an EMC, a firm should consider the EMC's size (EMCs come in all sizes. Some handle export sales for only a few manufacturers, others may work with several.), what other manufacturers and products it represents, its sales volume, the areas it covers and how often it covers these areas, and the quality of its management personnel, making sure they can provide your product with adequate market exposure. Do not hesitate to contact its other clients to find out if they are satisfied with the EMC's work.

For assistance in locating and selecting the proper EMC for your product, contact:

* U.S. Department of Commerce District Offices or the Department's Office of Export Trading Company Affairs, a division of the International Trade Association at telephone number: (202) 377-5131.

* NEXCO (National Association of Export Management Companies). This is an organization of more than 100 EMCs and will refer manufacturers to those members who handle the type of product involved. For inquiries, contact

National Association of Export
Management Companies
71 Murray Street
New York, NY 10007
Tel: (212) 481-1891.

- **Export Trading Companies** (ETCs). The Export Trading Act of 1982 was designed to permit banks to invest in Export Trading Companies and to limit the liability of these companies under existing anti-trust laws.

These features are expected to result in increased U.S. exports, since they will increase the availability of private-sector financing for exports, and will allow competing firms to band together in export transactions without fear of anti-trust

prosecution. ETCs function very much like EMCs.

The U.S. Department of Commerce has several publications available which provide additional information on EMCs and ETCs. The publication entitled **"Partners in Export Trade"** provides an extensive listing of EMCs and ETCs. These firms are listed geographically and are cross-referenced by product specialty. This listing (GPO: 003-009-00512-4) is available for purchase from

Superintendent of Documents
U.S. Government Printing Office (GPO)
Washington, D.C. 20402
Tel: (202) 783-3238.

Two other booklets are available for purchase: **The Export Trading Company Guidebook** (GPO: 003-009-00523-0)--from the GPO --and the **Directory of Leading U.S. Export Management Companies** (a directory of EMCs around the country), which is available from Bergano Book Company, P.O. Box 190, Fairfield, CT 06430.

- **Buying Agents.** A number of firms act as "finders" working in the U.S., usually under contract, to commercial, industrial or governmental organizations. These agents work on a salary or commission basis and are employed to purchase products wanted by their overseas principals. They then search out the supplier in the U.S. with the lowest prices and best terms of delivery.

- **Export Merchants.** These firms are very similar to buying agents, but purchase items for their own account rather than work under contract for another organization. They then resell these products to their customers overseas.

The non-exclusive arrangement of selling your product to buying agents or export merchants works well for some companies. But these sales seldom, if ever, take place on a regular, on-going basis. A manufacturer looking for continuous and expanding export operations will generally find that employing an EMC fits his export plan better.

- **Domestic Manufacturers of Related Products.** Another method of entering overseas markets that is often successful for small manufacturers is selling your product to another U.S. manufacturer with a compatible product line already in the international market. Often referred to as "piggybacking," this method might be desirable for those firms not wishing to commit any of their resources to developing foreign markets.

DIRECT SELLING:

In a direct sales method, the U.S. manufacturer retains the responsibility for shipping its product and may or may not be responsible for sales negotiations. There is potential for greater profits using a direct sales approach than with indirect methods. Selling directly also provides the advantage of control over product destination, promotion, distribution, pricing and service. When beginning export operations, it is not necessary to hire additional personnel. However, a staff person already within the firm should be designated as the organization's export development specialist. As export operations expand, staff can be added when and if necessary.

Direct methods of exporting include:

- **Foreign Sales Representatives or Agents.** These are the foreign equivalent of a U.S. manufacturer's representative. They handle related product lines of various manufacturers on a commission basis. They generally work under contract for a specific period of time and assume no risk or responsibility. The sales representative may operate on either an exclusive or nonexclusive basis. The advantage involved in this method, as well as other direct methods that make use of foreign representation, is the knowledge of local contacts and potential markets provided by these representatives. One drawback of using a foreign sales agent is possible representation problems. Agents usually sell a number of products and may devote more time to selling another firm's product than it spends selling your merchandise.

- **Distributor.** A distributor purchases products at the greatest possible discount for resale to end-users. Products most sought after by distributors are those with a fairly rapid turnover and a relatively modest cost. You should consider this type of arrangement if your product is one which requires periodic servicing. The distributor should be willing to carry adequate spare parts and maintain facilities and personnel for normal servicing operations. Since the distributor buys for its own account, it is easier for the U.S. manufacturer to establish a credit pattern so that more flexible or convenient payment terms can be offered.

Before entering into any type of an agent/distributor agreement, check local laws. They often provide protection for local firms, and you may find yourself faced with the choice of keeping a representative you're dissatisfied with or an expensive lawsuit if you try to dismiss your representative. This will be looked at again later in this booklet in the section dealing with selecting representation.

- **Direct Sales to End-Users.** This method is limited and depends on the product. The manufacturer retains total control over its

product, but it requires an internal export sales force and knowledge of the countries' foreign trade regulations.

- **State-Controlled Trading Companies.** A number of countries, mostly in Eastern Europe and China, have state trading monopolies, where business is conducted by a few government-sanctioned and controlled trading entities. Should East-West trade continue to expand and become more accessible to the smaller firm, these countries could become important future markets. For the time being, however, most opportunities will be limited to such items as raw materials, agricultural machinery, production equipment, and technical instruments, rather than consumer or household goods. This is due to the shortage of foreign exchange in those countries and their emphasis on industrial development and self-sufficiency.

FOREIGN OPERATIONS

There are several methods of entering a foreign market that don't involve either direct or indirect selling. These are methods in which the product is actually manufactured overseas. Depending on the product you manufacture, you may find yourself unable to compete in the international marketplace because of disincentives such as high labor costs, high prices for raw materials, excessive transportation charges, all which could make your product overpriced compared to products manufactured overseas. Other disincentives to exporting may include tariff and non-tariff barriers imposed by the country to which you wish to export such as taxes and import quotas. By setting up foreign operations, you may be able to eliminate some of these disincentives.

Also, there are often incentives offered by foreign governments to encourage a firm to set up operations. Like in any community looking for economic growth, these incentives are offered because of the positive effects a manufacturing plant has on the local economy. Incentives might include tax reductions or exemptions, tariff incentives, and financial assistance.

Although there are many types of foreign operations, the three described below are the most common.

- **Licensing.** This is the simplest method to provide a U.S. firm's product rapid entry into a foreign market. Licensing involves making the U.S. firm's patents and designs available to a foreign manufacturer for a set fee or per-unit royalty. The U.S. firm may also provide technical aid and "know-how," and allow the use of its trademark by the foreign manufacturer.

Since there is no direct investment on the part of the U.S. firm, this is the least expensive way to have a product manufactured overseas. Using a licensing arrangement can help

you overcome trade barriers and can also help you protect your trademarks and patents if the licensee is in a country where the trademark protection is predicated on use. Licensing is an ideal way for small firms to gain a foothold in otherwise closed markets, but it is used extensively by larger firms as well.

Although simple, a successful licensing arrangement requires careful consideration. Obtain expert advice before drawing up a licensing agreement with an overseas firm. The arrangement should include provisions for maintaining specified quality standards, definitions of the market area for which the license is granted, definitions of the use of brand names, and provisions to prevent the foreign licensee from becoming a competitor once the licensing arrangement has terminated.

Guarding against a future competitor can be done by sending one component of the licensed product from the U.S., registering your trademarks and patents in the foreign country, and adding a clause to your licensing agreement to enable you to negotiate additional agreements to cover new products and improvements developed by the U.S. firm.

Usually, the government of the host country must approve the agreement, subject to its local statutes, before it goes into effect. Be sure to investigate not only the prospective licensee and his ability to manufacture a quality product, but the country as well. As with any foreign operation, you must take into account the availability of foreign exchange, taxes, and attitudes toward repatriation of royalties and dividends.

- **Joint Ventures**. There are a number of reasons why you might want to invest in a joint-venture operation with a foreign firm. An equity position in the firm would give you a voice in the major management decisions of the firm, something you don't have in a licensing agreement. It also does not require as much of a capital investment as a wholly-owned foreign operation would. There are also many countries with laws that require all companies to be owned at least in part (often 51 percent) by nationals. And although some countries don't have laws against foreign-owned firms, they offer incentives to joint-venture firms.

Entering a joint venture also provides you the advantage of the local firm's knowledge of the market. They have knowledge of the existing distribution system, the local tastes and culture and perhaps have an established reputation in the country. This can help your product gain rapid acceptance in the local market. In their business dealings, the local firms may also have a number of established business contacts that can help pave the way for your product.

There are difficulties that can arise in joint-venture

operations if you do not try to diffuse them before entering into the arrangement. The foreign owners may have an outlook that differs from your's on many important aspects of business. You may find that their philosophies are opposed to yours on such items as company policies, marketing strategies, expansion of the firm, and repatriation of dividends. You may also find yourself with little input into the day-to-day operations of the firm.

Therefore, in a written agreement, come to an understanding with the foreign owners on the firm's potential market position, growth, financial policy, and policy on product development. In the agreement, outline the goals of the foreign owners, making sure you can live with these goals. Also include parameters for selling the products manufactured to third countries and the United States.

- **Wholly-Owned Operations.** Establishing a branch operation or subsidiary overseas usually requires a substantial investment. There are, however, advantages that come with this investment. Within the limits of the foreign country's laws, the firm is allowed to retain control of its product and pursue its international goals with little interference. It can control sales policy and production, and initiate more efficient production and management methods.

When establishing a wholly foreign-owned operation, you have two distinct choices: to set up a branch of a U.S. operation or a foreign subsidiary. Although for operating purposes, they are almost identical, each has its own set of advantages and disadvantages.

A branch operation is simply an extension of a U.S. corporation's operation, whereas a subsidiary of a U.S. corporation is an individual entity, incorporated in the foreign country and organized under the laws of that country. A branch operation is usually easier to establish than a subsidiary. The firm is registered in the country and certain documents are presented. It is generally less costly to operate because it can draw on the parent company's capital, rather than having to provide its own.

For tax purposes, a branch operation is simply part of the U.S. company and its entire profit is therefore subject to U.S. tax. A subsidiary's unpatriated net income is not subject to U.S. tax unless the firm is engaged in trade with the U.S. or the income was generated from U.S. sources. If considering a subsidiary, you should always check local tax laws because what you don't pay in U.S. taxes might be taken in local taxes.

One distinct advantage a subsidiary has over branch operations is limited liability. If problems arise, the subsidiary is an individual entity and is only liable to the

extent of its assets. However, a branch operation's parent company can be held liable for any problem incurred by the branch and **all** of its assets held against this liability.

It is **extremely important**, before entering into any kind of overseas manufacturing agreement, **to seek legal advice** and assistance from a reputable law firm experienced in this aspect of international trade. (See **References** in the back of this booklet for a listing of several law firms with international expertise.)

A note on international patents.

If your product is patented in the United States, this patent does not give you and your product protection in foreign countries. You must file an application in the Patent Office of each country in which you want protection.

The Patent Cooperation Treaty (PCT), of which the United States is one of approximately 30 Contracting States, created an international system for the filing of your **foreign** applications in the United States. Under the PCT, U.S. nationals and residents can file an international patent application with the U.S. Patent and Trademark Office (USPTO). This patent will have the same effect as a national patent application in those PCT Contracting States you "designate" in your application. Each country's national Patent Office has the responsibility to grant your firm its patent, but you pay a single set of fees for the filing of your international patent application with the USPTO. Also, the national fees in the designated States are payable at a much later date than if you do not use the PCT, due to delayed processing.

For more information on international patents, write

World Intellectual Property
    Organization (WIPO)
34, chemin des Colombettes
1211 Geneva, 20
Switzerland
Phone (022) 999-111; Telex 22376,

or

United States Patent and
    Trademark Office
U.S. Department of Commerce
Washington, D.C. 20402
Tel: (703) 557-3341 - Public Affairs
Tel: (703) 557-3080 - Patent Information.

In order to register your patent, you must have your applications prosecuted by an attorney or agent registered in the

Patent and Trademark Office. The U.S. Department of Commerce publishes a pamphlet entitled **"Attorneys and Agents Registered to Practice Before the U.S. Patent and Trademark Office"**, which can help you locate a registered patent attorney, if necessary. It is available from the above address.

Chapter 3 Worksheet : Methods of Market Entry

1. Direct vs. Indirect

Write down the methods of entry most commonly used in your target market.

	Yes	No
Do you have large amounts of time to devote to exporting?	___	___
Do you have experienced personnel to staff an export division?	___	___
Is it important that you retain control over the marketing, pricing and promotion of your product?	___	___
Are you willing to give a representative exclusive rights to the sale of your product in a given territory?	___	___
Does your product require service that could best be handled by a distributor?	___	___

2. Checklist for Representatives

(whether an EMC or an agent/distributor)

Are you comfortable with the firm's size?	___	___
Does it employ qualified personnel?	___	___
Does it adequately cover the area in which you are interested?	___	___
Do you feel enough emphasis will be placed on selling **your** product?	___	___
Are its other clients satisfied with the representation provided by the firm?	___	___
Have you sought legal advice?	___	___

3. Alternate Methods

Are you interested in manufacturing your product overseas?	___	___
By manufacturing your product in the U.S., is it priced out of foreign markets?	___	___
Are there import prohibitions against your product?	___	___

	Yes	No
Are you financially in a position to set up a branch operation?	___	___
Does the foreign market allow wholly foreign-owned firms to operate?	___	___
Is your trademark and/or patent protected in the target market?	___	___
Have you sought legal advice?	___	___

4. Your Marketing Strategy

In your marketing plan, list the method of entry for each country you plan to enter. State your reasons why you feel this would be the best method.

Are you ready to proceed with your plans to export?	___	___

PART II:

PREPARATION

Chapter 4: Selecting Foreign Representation

Up until now, we've talked about why you should export, and the analysis involved in making sure you're ready. Part II will continue analyzing your firm's prospects for success while discussing various aspects designed to prepare you for exporting. These aspects include financing your export operation, pricing and promoting your product and selecting foreign representation.

Although the preliminary evaluation is completed, continued analysis might reveal the lack of favorable financing or uncompetitive prices that may exclude you from exporting at this time. **Remember**, it is much better to discover you're not ready to export before you have committed yourself and your firm to an export order. Abandoning or neglecting your export operations after entering and selling in a foreign market will cause your firm to lose any image of dependability and will make it difficult to reestablish yourself in the foreign market.

In this section, we will assume that your firm does quite a bit of business overseas, and that you have decided to use a direct method of selling your product line. In other words, that you will employ an agent or distributor.

The first step in selecting an agent/distributor is to list the qualifications you feel a prospective representative must have. For example, the representative should be a national of the country you plan to sell in, and have a good understanding of your product or service. Also, the representative's organization should be big enough not to be fighting for survival, yet small enough to need your company's business. You should list essential services which a representative should provide to your firm. Among these may be large or specialized sales coverage, warehousing, administrative and accounting functions, maintenance and after-sales service, full credit-risk assumption, and handling buyer/user complaints.

Once you have established a profile, compile a list of qualified representatives that meet your specifications. As with all export decisions, the selection of foreign sales representation should be a careful, unhurried process. Agent selection is a very vital export decision as your success depends on the agent's effectiveness. There are several resources available to help firms locate someone in a foreign country who is qualified and interested in handling your products. These include:

1) Among the many services provided by the U.S. Department of Commerce is one which is designed exclusively to help U.S.

firms identify suitable representatives abroad. The **Agent/ Distributor Service (A/DS)** is used to locate foreign import agents and/or distributors. U.S. Foreign Service posts abroad supply information on up to six foreign firms which are interested in a specific export proposal and are willing to correspond with the U.S. firm making the request. The information supplied includes names and titles of persons to contact within the foreign firm, telephone numbers, cable addresses and telex numbers (if available), and brief comments about the firms or their stated interest in the proposal. A/DS application forms and the current cost per application may be obtained from the U.S. Department of Commerce/U.S. & Foreign Commercial Service Offices. In Montana, write to

USDOC/U.S. & F.C.S.
World Trade Center
1625 Broadway, Suite 680
Denver, CO 80202.

2) The **Trade Opportunities Program (TOP)** is available to U.S. exporters as a service of the U.S. Department of Commerce. TOP can provide you with current sales leads from overseas firms seeking to buy or represent your product or service. These leads are available by contracting the Montana Department of Commerce.

3) **World Traders Data Report** (WTDR) is a business report prepared by the Commerce Department's International Trade Organization. WTDRs give such information as the type of organization, year established, relative size, number of employees, general reputation, territory covered, language preferred, product lines handled, principal owners, financial references, and trade references. Each also includes a general narrative report by the U.S. Commercial officer conducting the investigation.

4) The **Export Information System (XIS)** is sponsored by the U.S. Small Business Administration and is available nationally. XIS is an export/import data bank of trade information of about 2,500 product categories showing their performance in the world market. This information is based on Standard International Trade Classifications (SITC) statistics. XIS is an excellent tool to help determine the exportability of your product by examining overseas markets, market trends and other countries competing in that market.

If you are interested in XIS information, contact the Montana Department of Commerce.

5) **Banks and Service Organizations**: Banks can be another excellent source of assistance. Those with international expertise maintain extensive overseas contacts and correspondent banking relationships that can help you locate reputable firms

which are qualified and willing to represent U.S. exporters.

In addition, ocean-freight carriers, airlines, port authorities, and American Chambers of Commerce maintain offices throughout the world. Through these offices, it is often possible for U.S. firms to find outlets or representation at no cost or obligation. Many of these same organizations also publish newsletters or booklets, widely distributed overseas, in which products can be described to attract interested representatives.

The individual or firm you choose to represent your firm should be the best qualified to handle your product line. Before entering into any definite agreement, it is important to obtain as much information as possible from the prospective candidates. You should write directly to each, and plan your initial correspondence carefully. Many foreign firms believe that U.S. companies consider foreign markets insignificant compared to their domestic business. Impersonal, unprofessional letters are likely to reinforce this belief.

Prepare each letter individually, preferably in your correspondent's language (if adequate translation services are available), and address to a specific individual, if at all possible. If this is your initial contact with the firm, be sure to indicate where you obtained the prospect's name. Always use air mail when sending a letter. Surface mail can take months to reach its destination.

Be prepared to market yourself, your firm, and its products to a potential representative. It is as important for him that he represent good clients as it is for you to have good representation. Provide full information on your firm: when it was established; names of any well-known companies that are currently your customers; foreign countries, if any, in which you are currently selling; as well as literature and information on the product line you are seeking to export. Indicate why you feel your product will sell in the target market and what advantages it has over similar products.

Don't ask for credit information in your initial correspondence. Use this first contact as a means of locating those organizations interested in representing your product line. After receiving a favorable reply from the firm, you should promptly follow up with a letter in which you comprehensively answer any questions raised by the prospective representative about your firm and its products. Now that the firm has shown interest in representing your product line, you should also request information from the firm to aid you in evaluating and comparing each candidate. Firms that are seriously interested in your product line should have little hesitation in answering questions you have about the organization. You should request

the following information:

- Current status and history of the firm, plus background on the group's principal officers.
- Personnel and other resources (sales force, warehouse and service facilities, etc.).
- Financial status of the firm.
- Sales territories the representative covers and the frequency of travels to these markets.
- Methods of introducing new products into overseas markets.
- Names and addresses of U.S. firms the agent or distributor currently represents. (Are their products complementary to yours? Competitive?)
- Sales volume the representative has produced for these firms.
- Why does the firm wish to represent your product?

NOTE: You may also wish to write to those firms who replied negatively to your inquiry for representation, asking them why they aren't interested in representing your product. Do they already handle a competing line? Do they feel your product would be a slow seller? Why? Information obtained from these firms may be helpful in finding ways to modify your product in order to make it more competitive in their market.

Those firms who do not reply or who provide only sketchy information should be eliminated from your search. Contact several of the firm's U.S. clients, asking them for an honest evaluation of their representative's character (reliability, efficiency, etc.) as well as if he has increased their sales, suggested ways to overcome production or marketing problems, etc. Investigate each remaining candidate thoroughly, comparing credit information given to you by the firm with information from other sources.

Various sources of credit information that you should use in your investigation of each firm are discussed in the following chapter in the section entitled "Credit Analysis."

Armed with the information you have gathered, narrow your selection to the top two or three candidates. Many experienced exporters recommend a trip abroad to visit the "finalists," and to choose your representative. A trip may help answer any remaining questions you have about a particular firm. It will also give you an opportunity to tour the facilities of the firm to make sure they are adequate for your needs. Inform each firm of your intention to visit the market before selecting a representative. While overseas, arrange for appointments with the commercial officer at the U.S. Foreign Service post in that country and with officers from local banks to find out more about local business practices, as well as asking for any information that might aid you in your selection of a representative.

Also, if possible, accompany each representative candidate on a visit to a potential customer for your product line. While there, notice how the representative is received by the firm. Is there a good rapport between them? How well does the representative deal with customers on a person-to-person basis? Does his sales style agree with that of your company?

IMPORTANT: Once you have chosen a representative, you should consult economic officers in the U.S. Embassy concerning local laws before drawing up a foreign sales agreement. You should be well informed of the protection provided the representative firm by the foreign government. Many countries have laws protecting local agents, and in some instances terminating an agreement can be a costly matter.

The foreign sales agreement can be relatively simple, but should be comprehensive and you should seek legal assistance when drawing it up to avoid violating anti-trust laws. The following basic items normally are included in a typical agreement:

- Date agreement goes into effect, duration, and provisions for extending or terminating the agreement.
- Description of product lines included.
- Definition of sales territory.
- Establishment of discount and/or commission schedules and determination of when and how paid.
- Establishment of a policy governing resale prices.
- Designation of responsibility for patent and trademark negotiations and/or policing and how they apply abroad.
- The assignability or nonassignability of the agreement and any limiting factors.
- Designation of the country and state (if applicable) of contract jurisdiction in case of dispute.

The agreement should also contain statements to the effect that the representative will not have business dealings with a competitive firm; not reveal any information in a way that would prove injurious, detrimental or competitive to the U.S. firm; not enter into agreements binding on the U.S. firm; and will refer all inquiries received from outside the designated sales territory to the American firm for appropriate action.

A representative may also ask that he be granted exclusive rights to sell your product in his territory. Whether you grant these rights should be determined by the coverage required and whether a single representative can adequately service the area in question.

To ensure a conscientious sales effort from the representative on behalf of your firm, the foreign representative should also agree to devote the utmost skill and ability to the sale of the product for the compensation named in the contract.

For tax purposes, in both the United States and possibly foreign countries as well, the place and time at which title to the merchandise passes from the seller to the buyer can be very important and should be written into the agreement.

Once the formalities of finalizing the manufacturer-agent agreement have been completed, the real work begins. You should provide your representative with a revised copy of your firm's marketing plan, which should be modified to include sales goals and benchmarks against which the representative's progress will be evaluated. It should also state the responsibilities of each party, including what type of support the representative will provide in the implementation of a promotional campaign (exhibitions, advertising, etc.) and how the fees for these activities will be paid. Along with the marketing plan, there are several other essential ingredients necessary for maintaining a cordial and profitable relationship.

- Your agent needs education on what your product does, which U.S. industries use it, and how to sell it. Tell him what promotion techniques have been found to be effective. Do this periodically.
- Answer his correspondence promptly and completely. If he needs additional catalogs and price sheets, consider sending them by air mail.
- Take special care with export shipments. Make sure your shipping department doesn't try to substitute a domestic reject. Make sure packing is adequate and **ship on time.** If there are delays, notify your agent by fax or telex immediately. Poor quality, damaged or delayed merchandise is a sure guarantee of market failure (and agent cancellation)!
- Pay him promptly, if he is a commission agent.
- Encourage your agent to visit your U.S. facility. Many regularly visit the U.S. to meet with suppliers.
- Consider a cooperative promotion campaign (you match the agent's funds for sales brochures, counter displays, or advertising). Many exporters feel this is an effective use of advertising funds.
- Put your agent on the mailing list. And don't forget the telephone!

NOTE: Regardless of the amount of preliminary research and good intentions, occasionally relations between U.S. companies and overseas representatives don't work out. When drawing up the contract, insist on a trial period of six months, renewable with both parties' consent. Whether a handshake or a legal contract, your agreement should be geared to increasing your sales and protecting your company while establishing a personal and mutually profitable relationship with your foreign representative.

Chapter 4 Worksheet : Selecting Foreign Representation

1. Listing Qualified Representatives

Establish a profile for your prospective agent distributor, listing the qualifications and services you feel are necessary.

Using the sources listed in the chapter, as well as your own, make a list of representatives that meet your specifications.

2. Correspondence to Qualified Representatives

	Yes	No
Did you address your letter to a specific individual?	___	___
Did you provide comprehensive and accurate information on your firm?	___	___
Did you explain your product and state why you feel it will sell overseas?	___	___
Did you reply to all letters received, answering thoroughly any questions raised?	___	___

3. Representative Evaluation

(fill one out for each candidate)

Name of Candidate

Did you receive a favorable reply? ___ ___

Why are they interested in representing your product?

Did they provide you with all the information you requested? ___ ___

	Yes	No
In checking, did you find the information accurate?	___	___

Compare with the other positive responses received, how does this candidate rank at this time?

If uninterested, did you write to discover why?	___	___

If so, note their comments and suggestions below.

Did you visit this candidate?	___	___
Are the facilities adequate for your needs?	___	___
Does the candidate's sales style agree with yours?	___	___
Did you choose this candidate?	___	___
In drawing up the foreign sales agreement, did you seek legal advice?	___	___
Are you ready to proceed with your plans to export?	___	___

Additional Comments:

Chapter 5: Financial Considerations

The financial aspects of any business venture are often more important than all other considerations. In this section, we will look at such items as obtaining financing for the increased production required for export, extending credit to foreign customers, receiving payment from those customers, as well as determining the credit worthiness of prospective foreign buyers.

FINANCING EXPORT SALES

The availability of favorable export financing has become an increasingly important factor of international sales. Manufacturers often need indirect financing to help meet the capital requirements for the production and expansion of their export operations. Foreign customers often add to a manufacturer's financial burden by requesting direct, short-term financing as well. It is often the credit terms a firm can extend to its buyers, rather than the price of its products that wins an export sale.

There are many sources of financial assistance available. Some organizations are designed to finance only export-related activities. Others do not grant loans specifically for export purposes, but can provide financing for establishing or expanding domestic operations regardless of whether production is intended for domestic sales or sales abroad. Your first source of financing is **your own working capital or bank line of credit.** However, limiting yourself to these resources may leave you with a severe cash flow problem if faced with payment delays. You should, therefore, explore all areas of financial assistance available to you.

Commercial banks can often provide commercial loans for the production, storage and shipment of your products. Loans supplying this operating capital generally can be provided by a line of credit secured by your accounts receivable and inventory. Many of the larger banks throughout the state have a loan officer responsible for handling international transactions. Also, many banks have correspondent relationships with larger banks having full service international departments.

Discussed below are various other financing options that are available to exporters. Some of these options can be combined with a bank loan to make them more attractive to your banker and give you better rates. Contact your international banker for advice on which program or combination of programs best suit your exporting needs.

NOTE: The importance of small businesses in the world of exporting has become increasingly recognized, and many lending and credit organizations have designed special programs and incentives to meet the needs of these firms.

The Small Business Administration (SBA) has several programs designed to help finance the establishment, operation or expansion of a small business. Funds received through the SBA programs may be used to purchase machinery, equipment, facilities, supplies or materials needed to manufacture or sell products overseas, as well as funding working capital needs. Working capital loans may be used to defray the costs of developing, penetrating, or supplying foreign markets.

Although funds are limited, the SBA does have a direct-loan program. To be able to qualify for one of these loans, you have to demonstrate that you are unable to obtain funds from a bank or other financial institution. The SBA provides guarantees of up to 85% of a private loan to eligible small businesses if the total SBA-guaranteed portion does not exceed the SBA's $750,000 limit. However, the SBA can provide a maximum guarantee of 90% for loans less than $155,000.

In addition to this program, the SBA has 3 other loan programs. Under its regular Business Loan Program, the SBA can cover loans for fixed-asset acquisition or expansion and other working capital purposes up to $750,000, and have a maximum maturity of 25 years. Guarantees for general purpose, term working capital loans are usually limited to a maximum maturity of 7 years.

The **Export Revolving Line of Credit Program (ERLC)** provides short-term financing for labor and material costs for pre-export production. This program provides guaranteed loans of up to $750,000 for capital or other acquisitions related to export activities. The request must be processed through a commercial bank. Under this program, the SBA will guarantee up to 90% of a bank's line of credit as long as the outstanding balance of credit line together with any other SBA loans does not exceed $155,000. Any number of withdrawals and repayments can be made as long as the dollar limit of the credit is not exceeded, and the disbursements are made within the stated maturity period. The maximum maturity of an ERLC guarantee is 18 months, including all extensions. Funds from the ERLC may not be used to purchase fixed assets, equipment, or to repay a debt, but are limited to labor, supplies, inventories and materials for pre-export production; purchase of goods for foreign resale; and to develop or penetrate a foreign market. Market development expenses may include such costs as professional foreign marketing advise and services, foreign business travel, participation in overseas trade shows and foreign advertising and preparation of promotional materials.

The SBA also administers the **SBA-Export-Import Bank Co-Guarantee Program**, which allows the SBA, in cooperation with the Export-Import Bank (Eximbank), to participate in loans between $200,000 and $1,000,000. The guaranteed portion is again limited to 90 percent.

The SBA, by law, may not make or guarantee a loan if private financing is available. Therefore, all applications must include a cash flow projection that supports the need for funds, as well as showing evidence of an ability to repay the loan.

For current information on the SBA's financial assistance programs, policies, and requirements, contact

Small Business Administration
301 South Park Avenue, Room 528
Drawer 10054
Helena, MT 59626
Tel: (406) 449-5381
Fax: (406) 449-5474.

The purpose of the **Export-Import Bank of the United States** (Eximbank), an independent agency of the Federal Government, is to facilitate U.S. exports through credit support in the form of loans, guarantees, and insurance.

Eximbank offers direct credit to overseas buyers for large projects and equipment sales that usually require longer term financing. Under the same program, it also offers guarantees, insurance and discount loans to exporters and banks in the U.S.

Direct credit financing is provided for exporters of medium-term goods when faced with subsidized foreign competition. If the exporter qualifies as a "small business," the competition rule is not necessary to be eligible.

Through the Working Capital Guarantee Program, Eximbank guarantees a lender's repayment on working capital loans for exports.

For more information on services provided by the Eximbank, contact your international banker, or

Export-Import Bank of the
United States (Eximbank)
811 Vermont Avenue, N.W.
Washington, D.C. 20571
Tel: (202) 566-8990.

As exporting becomes increasingly competitive, offering favorable repayment terms to foreign customers may often make the difference of winning or losing a sale. The **Foreign Credit**

Insurance Association (FCIA), a private sector association of insurance companies, works with Eximbank to help exporters extend favorable terms by insuring repayment of export credit against non-payment by foreign credit customers of U.S. exporters due to political and/or commercial causes. The FCIA administers the program on behalf of member insurance companies and the Eximbank. The private insurers cover normal commercial risks and the Eximbank assumes liability for political risks.

There are both short- and medium-term insurance policies available through the FCIA with various types of coverage ranging from a Master policy, which provides "blanket" coverage for all the exporter's sales to overseas buyers; to individually tailored policies for specific sales.

Although the FCIA does not directly finance export sales, insuring your foreign accounts receivable may help you obtain financing on more favorable terms than if you have not insured them. In addition to protecting your foreign receivables, FCIA insurance can help the exporter meet foreign competitive terms and do more business in proportion to the firm's capital because the risk of investing this capital is minimized. Also, the proceeds of FCIA policies may be assigned to a bank or other financial institution as security against discounted foreign receivables.

NOTE: The FCIA maintains a special "New-to-Export" policy for firms which, for the last 2 years, have not exceeded $750,000 annually in average export credit sales, and which have not previously used Eximbank or FCIA insurance.

For more information on the FCIA, its policies and programs, contact

FCIA
40 Rector Street, 11th Floor
New York, NY 10006
Tel: (212) 227-7020

or one of the regional offices located in Miami, Chicago, Houston and Los Angeles.

An Eximbank "HOTLINE" service has also been established to help small businesses. This toll-free telephone counselling service is designed to help answer questions that small business exporters may have concerning assistance in financing goods and/or services for sale to foreign countries. Besides offering information on Eximbank and FCIA programs (including assistance in applying), the "Hotline" can direct you to appropriate export assistance programs of other Government Agencies such as the Department of Commerce and the Small Business Administration. Though designed specifically to aid small firms, the "Hotline"

is available to any U.S. company with questions on these programs. The toll-free number is (800) 424-5201.

The **Private Export Funding Corporation (PEFCO)** works with Eximbank in using private capital to finance U.S. exports. PEFCO acts as a supplemental lender to traditional commercial banking sources by making loans to public and private borrowers located outside the U.S. who require medium- or long-term financing for their purchases of U.S. goods and services.

In all cases, PEFCO loans or the foreign importer notes purchased from others by PEFCO must be covered by the comprehensive guarantee of repayment of principal and interest by Eximbank. PEFCO loans range from $1 to $225 million, extend between 5 and 22 years and are sponsored by domestic and foreign banks.

Through the **Overseas Private Investment Corporation (OPIC)**, the government facilitates U.S. private investments in Lesser Developed Countries (LDCs). OPIC is an independent, financially self-supporting corporation, fully owned by the U.S. government with offices in Washington, D.C.

OPIC provides political-risk insurance and financing to American companies interested in the developing countries. It also offers specialized insurance and financing services for U.S. service contractors and exporters operating in the developing world. Programs include:

- **Political Risk Insurance** is used to insure U.S. international investments against the risks of political violence (war, revolution, insurrection, civil strife); expropriations; inconvertibility of local currency; and/or loss of business income due to political violence or expropriation.
- Financing of medium- to long-term loans for international investment projects is available through loan guarantees and/or direct loans. OPIC's direct loans, reserved for international investment projects involving small- to medium-sized companies, typically range from $250,000 to $6 million.
- **Investment Missions** wherein OPIC conducts periodic investment missions to LDCs. These missions introduce you to key business leaders, potential joint-venture partners and high-ranking government officials in the host country.
- **Opportunity Bank**, a computer data system that matches U.S. investors with potential investment opportunities. If you or your firm is seeking foreign joint-venture projects, submit a description of your company, the type of investments sought, and the LDC(s) of interest.
- **Investor Information Service** is a clearinghouse providing business and political information and data on 110 LDCs and

16 geographical regions. The information comes in the form of "country kits."

For more information on OPIC programs, services and publications, contact

Overseas Private Investment
Corporation (OPIC)
1615 M Street, N.W.
Washington, D.C. 20527
Tel: (202) 457-7010, or
(800) 424-6742.

The **Economic Development Administration (EDA)** offers loans and loan guarantees to help business expand or develop in areas that will benefit, economically or in employment, from such operations. For more information, contact

Economic Development
Administration
P.O. Box 10074
Federal Building
Helena, MT 59626
Tel: (406) 449-5074.

The **Farmer's Home Administration (FmHA)** offers Business and Industrial Development Loan Guarantees (B & I) for projects in rural areas or small towns. The focus of these guarantees is to establish or expand industrial business enterprises and to increase employment in rural areas. Although not a traditional source of financing for export expansion, it can serve as such for businesses located in qualified areas. For more information, contact

Farmer's Home Administration
District Office
Box 850
Bozeman, MT 59771
Tel: (406) 587-6797, or 587-6798.

An additional source of financing is through the **Montana Board of Investments**. The Board is a state-funded development agency which was created to strengthen and diversify the state's economy through investments in qualifying Montana businesses. The Board looks to invest its limited coal tax loan funds in projects which have the greatest potential for creating employment opportunities for Montanans and other long-term benefits to the state's economy.

The Board has targeted its funds to three major areas:

1. basic economic activity,

2. import substitution activity, and
3. retail and wholesale distribution of Montana made goods.

Exporting qualifies under these terms because "basic industry" is defined by the Board as any business activity conducted in the state for which 50 percent or more of gross revenues are derived from out-of-state sources.

The Montana Board of Investments offers several different programs of interest to exporters. The Board's Business Loans Participation Program, which may be used to finance conventional business loans, is designed to allow approved Montana financial institutions the opportunity to "sell" up to 80 percent of an eligible business loan to the Board. The Board, in essence, then owns a participation interest in both the financing and the security for an approved commercial loan that is serviced by the originating lender.

Through the Board's Federally Guaranteed Loans Program, lenders that have secured a federal guarantee on a fixed-rate loan to a business that is eligible for Board investment may sell the federally guaranteed portion of the loan to the Board at a pre-established rate. The most common use of this program is for loans guaranteed by the U.S. Small Business Administration (SBA). The purpose of this program is to establish an active secondary market for fixed-rate federally guaranteed loans in Montana.

Both of these programs allow approved financial institutions the opportunity to provide their commercial customers fixed-rate financing at a lower rate than was previously possible, as well as increase local lending capacities when loan demand is high.

You can contact the Board at

Montana Board of Investments
Montana Department of Commerce
Capitol Station
Helena, MT 59620
Tel: (406) 444-1970
Fax: (406) 449-6579.

RECEIVING PAYMENT FOR EXPORTS

As mentioned earlier, occasionally the terms of payment that you offer a potential buyer are decisive in winning the sale. Discussed below are several basic methods of payment for products sold overseas. In many respects, some of them are quite similar to domestic payment terms.

Regardless of the method of payment being used, you should quote and require payment for exports in U.S. dollars. Some firms do become involved in foreign currency quotations, but due

to rapidly changing exchange rates, and procedures involved in currency exchange, financial losses can result from this method. Pricing in U.S. dollars eliminates this problem.

- Cash in advance

Cash in advance is, of course, the most desirable method of payment for the seller who is relieved of any future collection problems and has immediate use of the money.

However, this method of payment is unattractive to the buyer and rarely obtainable except, perhaps, as a partial payment for custom-made products and occasionally for small orders. Buyers object to these terms because it ties up capital until the merchandise is received and resold. Buyers may also have doubts about the solvency and reliability of your firm, fearing they may never receive the merchandise.

- Open account

This method provides no protection to the seller, and unless the buyer is of unquestionable integrity (determined by a thorough credit investigation or long-term association), an open account is very risky. The merchandise is shipped and the exporter's capital is tied up until payment is made, which, in many countries, may not occur until the shipment is received. In addition, since there is no evidence of the obligation through the usual banking channels, there can be complications if the buyer defaults on payment.

- Sight draft

Often referred to as S/D D/P (sight draft, document against payment), a sight draft is used when the seller wishes to retain control of the shipment, either for credit reasons or for the purpose of title retention. The draft (or request for payment) is sent by the seller's bank to a local bank in the buyer's country for presentation to the buyer. Attached to the draft are the shipping documents: bill of lading, invoices, packing lists, insurance certificate, etc. The buyer will usually pay the draft when the vessel carrying the order arrives in port in order to receive the documents allowing him to obtain possession of the goods.

There is still some risk involved in this method of shipment because the buyer's financial position may change between the time the goods are shipped and the time the drafts are presented for payment. This could leave you with unclaimed merchandise, at which time you would be faced with the choice of paying to have it stored while locating another buyer in that country, shipping it to a buyer in another country, or shipping it back home.

NOTE: The exporter should be aware of the fact that "sight" refers to sighting the draft there, not in Montana. The exporter can reasonably expect a 30-day delay, and may wish to cover the interest cost on the value of the shipment in the export price.

- Time draft

This is similar to a sight draft, except that the buyer can obtain possession of the goods when accepting the draft, and defer payment for 30, 60, 90 days, or even longer. This method is commonly used with top-rated and long-time accounts.

- Date draft

Unlike the ordinary time draft, the date draft requires payment by a specified date regardless of the date on which the goods and the draft are accepted by the foreign buyer. With both sight drafts and time drafts, the buyer can effectively extend the period of credit by simply avoiding receipt of the goods. Date drafts eliminate this problem.

- Letters of credit

A frequently used form of collection is payment against a letter of credit. This document is issued by a foreign bank at the buyer's request. It represents a promise to pay the seller a specified amount of money upon receipt by the bank of certain documents on or before a given date. These documents are usually the same as those furnished for a sight draft collection.

Letters of credit (L/C) may be revocable or irrevocable, confirmed or unconfirmed. The most desirable for the seller is an irrevocable L/C, confirmed by a U.S. bank. This form of L/C cannot be altered or cancelled by the banks or the buyer without the seller's permission. Also, the U.S. bank accepts responsibility to pay, regardless of the financial condition of the buyer or foreign bank. This is a definite advantage to the seller who can thus receive payment as soon as the documents are presented to the bank.

If the L/C is unconfirmed, the seller is relying on the guarantee of the foreign bank to make payment. If the foreign bank has an international reputation, there should be no problem. But the seller should seek the added value provided by confirmation by a U.S. bank.

The least desirable is the revocable L/C, since it can be cancelled or changed at any time without prior notice to the seller. For that reason, it should not normally be accepted by the seller.

Using letters of credit as a method of payment is often

expensive for the buyer because he must commit funds to the bank before the merchandise or the documents giving title to it are actually received. But because a letter of credit has an expiration date, a buyer can usually be assured that a shipment will be timely.

Caution: After receiving a letter of credit from an overseas buyer, compare it to the sales contract or order you received earlier. **Make sure** you are able to meet all of its conditions and terms. If not, contact the buyer immediately. Tell him which terms you are unable to meet, and ask him to amend the letter of credit. A bank can only make payment if **all** conditions of the L/C are fulfilled.

CHECKING FOREIGN CREDIT

In order to compete in international trade, as we've previously mentioned, it is necessary to extend favorable terms of payment. Using open account sales or draft documents, you are extending credit to your overseas customers. Because it is much easier to avoid bad debt in international trade than it is to collect on it, it is very important to thoroughly check the credit status of your potential foreign customers.

There are several sources of credit information. The first source you should turn to is the customer himself. Ask him for bank references and references from his other suppliers in the U.S. and abroad. Check this information against other sources to assure its accuracy.

Your international banker may also be able to provide credit information on the firm. American banks active in international trade usually maintain credit files on overseas firms. Additional information can be accessed through the bank's correspondent relationships with foreign banks.

Another source of information is the U.S. Department of Commerce's **World Traders Data Report** (WTDR), described in the previous chapter. WTDRs contain useful information on the firm being investigated. For additional information on WTDR, contact the international trade specialist at the U.S. Department of Commerce.

Credit agencies, such as Dun & Bradstreet, have offices abroad to gather data on foreign firms. These agencies often provide speedier service in responding to inquiries than Commerce's WTDR service, but they are also more expensive.

The **Foreign Credit Interchange Bureau (FCIB)** is part of the National Association of Credit Managers. This organization gathers data on overseas firms from member firms in the United States and makes this information available to other FCIB

members. Information on these FCIB Credit Interchange Reports is available from the FCIB's New York headquarters

Foreign Credit Interchange
Bureau
520 Eighth Avenue
New York, NY 10018.

No matter how carefully you check a customer's credit, you will occasionally encounter problems with customers who default on payments. Although possible, it is often difficult and expensive to obtain payment from them.

The simplest and least-costly solution to this problem is to contact and negotiate with your customer. With patience, understanding, and flexibility, you can often resolve conflicts to the satisfaction of both sides. This is especially the case when a simple misunderstanding or technical problem is to blame and there is no question of "bad faith." Even though you are required to compromise on points--perhaps even on the price of the committed goods--you may save a valuable customer and profit in the long run.

The FCIB operates a world-wide collection service and can also offer you advice on foreign collections. Collection agencies and the foreign branches of banks can also press for payment on your behalf.

As in the United States, legal action should be used only as a last resort. Litigation in foreign courts is very costly, so it is only viable when the sums involved are significant. Additionally, you face differences in foreign laws that may favor the debtor, as well as nationalistic reaction against you. If you do decide to take legal action, you should obtain the assistance and advice of your bank, legal counsel, and other qualified experts. The U.S. Department of Commerce will also lend its support to the resolution of legitimate trade complaints. Your nearest Commerce District Office should be contacted for assistance.

NOTE: As mentioned in an earlier part of this chapter, there are several firms that offer insurance coverage of commercial credit risks. The new exporter should consider this protection carefully before entering into credit transactions.

Chapter 5 Worksheet : Financial Considerations

1. Financing Export Sales

List the uses of the funds you need:

Additional inventory ________

Additional product costs ________

Any other variable costs ________

Additional accounts receivable ________

Total funds needed ________

List sources of funding and amounts:

Bank lines of credit ________

Funds from operations (cash flow) ________

Other private & public sources

____

Total amount received ________

Note the terms of each loan, the interest rates, and the payments.

	Yes	No
If sales do not increase immediately, will you be able to finance the increased debt from historic cash flows?	___	___

2. Receiving Payment

How much credit can you reasonably finance? ________

Have you added the cost of financing sales to your export prices?	___	___

3. Checking Foreign Credit

Have you thoroughly checked the prospective buyer's credit?	___	___

	Yes	No
If the findings were not favorable or inconclusive, have you checked other possible options of covering the risk (i.e., insurance)?	___	___

Chapter 6: Pricing and Promoting your Product

PRICING EXPORTS

Establishing an export price for your product is an important step in the export process. The price must be high enough to generate a suitable profit, yet low enough to be competitive in foreign markets. The price at which you can sell your product will also influence your evaluation of the attractiveness of overseas markets and thus your commitment to selling in them. It is essential, therefore, during the initial period of market research, that you consider several aspects that are relative to the pricing of your product.

First, establish a "normal" price range for products similar to yours in that market. Does your product have special features that distinguish it from its competition? Is your product new to the market? In both of these instances, you may be able to command higher prices.

You should also evaluate the demand for your product. If you increase the price, will demand stay at the same level? Or will people buy lower priced substitutes?

When establishing a price, also consider costs relative to that market. Such costs include packaging, transportation and handling, promotion, and selling expenses. Because these costs vary from one country to another, your export prices may also vary.

You may find it difficult to estimate all the costs that should be considered in your export pricing. If you find you need help, your freight forwarder, who has usually had quite a bit of experience in export activities, should be able to help you calculate your export prices.

There are three basic methods of pricing your product.

- Domestic Price

The majority of new exporters simply use the domestic price of their product and add export costs such as freight, packing, insurance, etc. Because domestic marketing costs, such as sales and advertising expenses, are included, the export price derived is generally too high to be competitive.

- Marginal Cost Pricing

A far more realistic approach to export pricing involves

three steps. First, "strip" the domestic selling price. Eliminate all costs that have nothing to do with exporting, especially domestic selling expenses (salespeople compensation, representative's commissions, domestic shipping, advertising and sales promotion), as well as profit mark up. The result is the "export base cost."

Then add to the export base cost all genuine export expenses (export overheads, packing, overseas shipping and insurance, overseas agent's commission and an allowance for sales promotion and advertising, etc.) and the unit profit the exporter expects to make. The result is a c.i.f. selling price with all expenses paid to the destination. (Definitions are addressed later in this chapter.) The calculation is slightly different if the exporter intends to sell on f.o.b. or "ex plant" terms.

Finally, take the retail price range of similar products in the foreign market that you established during your preliminary research. Deduct the usual trade margins and allowances. Your c.i.f. selling price should be comparable to the this net price range.

This procedure leads to sound export pricing decisions. Only the true cost of export products is taken into account and price increments from the exporter to the final buyers of the products are considered, even though agents or distributors may be involved in the actual selling.

Caution: When establishing export prices, you can't completely ignore your domestic selling price. If you sell your product at a lower price overseas, you could get charged with "dumping" and face fines or higher duty rates.

- Product Modification

If you find the price you have arrived at is not competitive, you may want to consider modification of your product as a means of reducing the cost. You may then be able to sell your product at a competitive price and still yield a reasonable profit. Product modification may involve reducing the contents of a package, reducing the quality by using less expensive material, or simplifying an elaborate product so that a certain price level can be achieved.

PREPARING YOUR QUOTATION

A quotation basically describes the product, states a price for that product at a specified delivery point, sets the time of shipment, and specifies the terms of payment. Since the foreign buyer may not be familiar with the product, its description in an overseas quotation must usually be more detailed than in a domestic one. The description should include the total gross and

net shipping weight and the total cubic dimensions. This information is necessary so that buyers may determine if special loading or handling equipment will be needed; it will also enable them to compute transportation charges. In some countries, import duties and/or taxes are assessed on the weight of the shipment rather than its value; the buyer must be able to calculate this in advance. You should stipulate whether the material being quoted is new or used. Any options included in the basic quotation should be mentioned, as well as other factors that could affect the price.

Quotations should be made in U.S. dollars rather than foreign currency. This reduces your foreign exchange risks and allows you to readily determine what your profit margin is, and, if the dollar is stable, frees you from the need to continually change your prices. For the same reasons, overseas buyers may ask for quotations in **their** currency. Although this can be risky, it is sometimes necessary to give a quote in foreign currency in order to win a sale.

IMPORTANT: Price quotations should explicitly state that they are subject to change without notice. If a specific price is agreed upon or guaranteed by the exporter, the precise period during which the offer remains valid should also be specified.

Often, a seller is requested to submit a "pro forma" invoice with the quotation. These invoices are not for payment purposes, and should not be mistaken for orders. They are only models that the buyer will use when applying for an import license or arranging for funds. In fact, it is good business practice to include a "pro forma invoice" with any international quotation, whether it has been requested or not. The following steps should be taken before preparing a quotation:

1) Contact a freight forwarder to help you develop cost schedules and prices for your exports;
2) Contact your international banker to obtain help in determining the appropriate method of payment to require;
3) Calculate all information to include in the quotation or pro forma invoice; and
4) Prepare the quotation or pro forma invoice.

Checklist for Preparing a Quotation

As much of the following data as possible should be listed on the pro forma invoice, or in your quotation letter, since in foreign trade a "quotation" is often considered as a binding and valid contract.

- Always show the exact name and address of the buyer and of the Bill/lading consignee or "notify" party.
- Describe the goods exactly. Give the number of packages

and units to be shipped, type of packages to be used, and whether packing cost is included in the price. State the estimated gross, legal and net weights in pounds and/or kilos, and cubic measurements.

- Specify the shipping marks and goods description you plan to put on the packages. Specify the port of embarkation, the steamship line to be used (if possible), the approximate shipment date from the port, the port of destination, and whether freight is to be prepaid or "collect."

- Give the total cost of the merchandise under the particular terms of sale required: f.o.b., f.a.s., c.& f., or c.i.f. If this does not include ocean freight and insurance costs, supply estimated total costs of each.

- Specify the payment terms you require (Letter of Credit, Sight Draft, Term Draft, open account; if L/C, whether confirmed and irrevocable and which U.S. bank you prefer to advise or confirm the L/C.)

- Specify that the buyer must obtain an import permit and exchange permit (where required), and either furnish them to the seller (when necessary), or certify their possession prior to shipment.

- Specify that your offer to sell is subject to strikes, force majeure, etc., and contingent upon receipt of L/C and upon your ability to secure U.S. Export License (if necessary), prior to the required shipping date. Specify that quotations are firm only if accepted prior to a specific date (usually from one day to 30 days after the buyer's receipt of offer), and subject to your receipt of an acceptable L/C within a specified period.

- Sign the bottom of the original invoice--preferably two (2) copies. (In some countries, signed pro forma invoices must be submitted to licensing authorities or banks.)

TERMS OF SALE

In any sales agreement, it is very important that a common understanding exist regarding the delivery terms. In the United States, it is customary to ship f.o.b. factory, freight collect, prepay, and charge or c.o.d. In international business, an entirely different set of terms is used, some of which **sound** similar, but have different meanings. A complete list of important terms and their definitions is contained in <u>Incoterms</u> (No. 350), a booklet issued by an affiliate of the International Chamber of Commerce -- the ICC Publishing Corporation, Inc., 156

Fifth Avenue, Suite 820, New York, New York 10010. A companion publication entitled A Guide to Incoterms (No. 354), is also available. It uses concise, attractive illustrations (plus commentary), to explain more fully how buyer and seller divide risks and obligations, and therefore the costs, in specific kinds of international trade transactions.

The following are a few of the more common terms used in international trade:

C.I.F. (Cost, Insurance, Freight) to named overseas port of import. Under this term, the seller quotes a price for the goods, including insurance, all transportation, and miscellaneous charges to the point of debarkation from vessel or aircraft.

C. & F. (Cost and Freight) to named overseas port of import. Under this term, the seller quotes a price for the goods, including the cost of transportation to the named point of debarkation. The cost of insurance is left to the buyer's account.

F.A.S. (Free Alongside a Ship at Named U.S. Port of Export). Under this term, the seller quotes a price for goods, including charges for delivery of the goods alongside a vessel at the port. The seller handles the cost of unloading and wharfage. Loading, ocean transportation, and insurance are left to the buyer.

F.O.B. (Free on Board). Under this term, the seller quotes a price for goods, including the cost of loading them into transport vessels at a named point.

There are several kinds of f.o.b. quotations including:

F.O.B. (Named Inland Point of Origin). The price quoted applies only at a designated inland shipping point. The seller is responsible for loading goods into the transport vessel. The buyer is responsible for all subsequent expenses.

F.O.B. (Named Port of Exportation). The quoted price includes the cost of transporting the goods to the named point.

F.O.B. Vessel (Named Port of Export). The seller quotes a price covering all expenses up to, and including, delivery of goods upon an overseas vessel provided by or for the buyer.

EX (Named Point of Origin); eg., EX Factory, EX Warehouse, etc. Under this term, the price quoted applies only at the point of origin and the seller agrees to place the goods at the disposal of the buyer at the specified place on the date or within the period fixed. All other charges are for the account of the buyer.

Make your quotes meaningful. Always quote c.i.f. whenever possible, this means something abroad. It shows the foreign buyer what it costs to get your product to a port in or near the desired country. A price for agricultural machinery quoted "F.O.B. Havre, Montana" would not be very useful to a foreign buyer. It would be much easier for you to quote at least the price from a U.S. coastal port than for the buyer to try to determine inland costs to that port.

If you need assistance in figuring the c.i.f. price, an international freight forwarder will be glad to help you. If you furnish a description of your product with its weight and cubic measurements when packed, the freight forwarder can then compute the c.i.f. price. There is usually no charge for this service.

REMEMBER: A simple misunderstanding regarding delivery terms may prevent you from meeting contractual obligations or make you responsible for shipping costs you sought to avoid. Be sure you understand and use delivery terms correctly.

PRODUCT PROMOTION

Carefully planned product promotion is essential to the success of your product in a foreign market. As with your domestic promotion, some initial research is necessary in order for your foreign marketing efforts to be effective. If you have not done so already, you must identify who your foreign customers are, what their needs and habits are, and which media most affect their buying habits.

Because the use of media varies from country to country, you should seek the help of people familiar with the customs of the country to aid you in the promotion of your product. You can work with a U.S. firm that has offices or correspondents in your target market, or you can hire a local firm.

- Advertising

With the help of the firm you choose, evaluate the effectiveness of the various media for the promotion of your product line, keeping in mind what your budget constraints are. You may find that advertising is too expensive, and you may choose to forgo it completely. However, some forms of advertising you should consider are:

* Industrial- or consumer-oriented magazines with an international following
* Television and radio
* Outdoor advertising such as billboards, electric signs or train and bus cards
* Direct mail

When choosing a medium to advertise through, remember to consider not only the cost, but how effectively it will reach your targeted customers. Advertising in an industrial magazine may be fairly inexpensive when compared to the costs of radio and television advertising. If your targeted customers are CEO's of firms using your type of product, this would be an ideal use of media. However, if illiteracy is high in your target market and your product's potential is with the general public, advertising through radio or T.V. would be a much better use of your money.

Before making any decision on advertising, look into foreign regulations and legal barriers affecting advertising in the target market. The restrictions may vary vastly from those in the United States.

- Product Packaging

Packaging is a very important aspect in your marketing program. Your package must attract the customer's attention and sell your product. Therefore, you should adapt your packaging to foreign tastes and translate your labeling into the local language. Changing the packaging of a product is often expensive. The cost must be considered when weighing the attractiveness of a potential market.

When designing a package for foreign markets, consider needs and preferences that should be met by your package. For example, the package should be sturdy enough to keep the product intact while shipping. And in some countries, when given a choice, consumers are more apt to buy merchandise in reusable packages. Occasionally, it is possible to avoid the necessity of designing a package for export by using an indirect method of exporting. For example, an EMC may buy your product from you in bulk and then package it under its own name.

In both packaging and advertising, you should use the local language for your literature. This is especially important in safety and warning labels and instruction sheets in order to avoid liabilities that might result from misinterpretation. It is crucial that you employ somebody fluent in the language (not a person who may have studied a year or two in high school) to translate this material for you. An alternative to using a promotional agency is to contact a university that offers classes in the language. Professors, graduate students and foreign visiting students will often translate your material for a fee.

TESTING FOREIGN MARKETS

Before fully committing to sell your product in an overseas market, it is often a good idea to test the acceptability of your product (its price, packaging, etc). There are a number of ways to do this. Marketing events such as overseas trade fairs or

trade missions are often an effective and fairly inexpensive way to test a foreign market. Through these marketing events, American products are exposed to potential foreign buyers, and representatives of U.S. manufacturers have a chance to personally speak with these buyers and other business contacts.

- **Trade Missions**

The International Trade Administration (ITA) of the U.S. Department of Commerce organizes and participates in various trade missions every year. The ITA is in charge of U.S. export promotion facilities abroad. Their duties include conducting or assisting in market research within the region, scheduling export promotion events as a result of information gathered and helping to organize the participation in these events by specific U.S. exporters whose products are thought to have potential. These events generally fall into three categories:

1. **U.S. Executive-Level Trade Missions** (formerly Specialized Trade Missions), are planned, organized, and led by high-level U.S. executives. Their primary objective is the sale of U.S. goods and services and the establishment of agencies or representation abroad. Detailed marketing information is provided along with advanced planning, publicity, and trip coordination.

As sponsor of the mission, the ITA will select a product line and itinerary that appear to offer a good potential for export sales. This selection will be based on relevant market research data and made after consultations with officers at U.S. Embassies and Consulates. Mission members pay their own expenses and a share of the overseas operating costs. They also conduct business on behalf of the firm they represent.

2. **Industry-Organized, Government-Approved (IOGA) and State-Organized, Government Approved (SOGA) Trade Missions** are organized by trade associations, chambers of commerce, state development agencies, and similar groups with the advice and support of the U.S. Department of Commerce. To qualify for Government sponsorship, such missions must agree to abide by certain criteria. The overseas operations of IOGA and SOGA trade missions are substantially the same as those of a U.S. Executive Level Trade Mission.

3. **U.S. Seminar Missions**, like trade missions, are used to promote the sale of U.S. goods and services abroad and to help establish agencies and other foreign representation for U.S. exporters. Unlike trade missions, however, they are especially designed to facilitate the sale of fairly sophisticated products and technology. The mission is carried on by a "U.S. Seminar

Team" consisting of representatives of a high-technology U.S. industry. The key ingredient in a seminar mission is, as its name implies, a 1 to 2 day seminar forum during which team members conduct "generic" discussions on technological subjects. This is followed by private, sales-oriented appointments that are scheduled for each team member by the U.S. Government.

The U.S. Department of Commerce and the SBA co-sponsor **Matchmaker Programs**. These programs are high-visibility trade delegations organized to introduce U.S. firms to foreign channels of distribution. At each stop in a foreign country, U.S. participants are matched with potential agents, distributors, licensee or joint-venture partners interested in their specific product or service.

- Trade Fairs

There are literally hundreds of trade fairs and exhibitions held around the world every year. They range in scope from general trade shows in which any and all manufactured items might be displayed, to highly specialized shows concentrating on items such as computers and their peripherals.

The U.S. Department of Commerce-ITA sponsors official participation in a select group of these fairs each year. By creating a U.S. presence, the ITA offers a full range of promotional and display assistance to companies participating in these fairs. The services offered to exporters may vary from show to show, but generally in addition to pre-show promotional services, the ITA will provide exhibit space, design and construct the exhibit, advise on shipment of products to the site, unpack and position displays, supply basic utilities and housekeeping services, provide a lounge or meeting rooms for exhibitor-customer conferences, provide appropriate show hospitality, and provide marketing counselling.

The cost to the U.S. participant varies by country and event. As a participant, you will need to provide U.S. products for display, supply technical and promotional literature, ship products to the exhibition site, and make a specified participation contribution.

The Montana Department of Commerce participates in several national and international trade fairs every year. Manufacturers who cannot utilize a complete booth space can purchase a portion of a booth from the MDOC. For more information on shows in which the Department is participating contact the International Trade Office (for international shows), or the Domestic Marketing

Program for domestic shows at the

Montana Department of Commerce
Business Assistance Division
Capitol Station
Helena, MT 59620
Tel: (406) 444-3923.

- Overseas Catalog and Video/Catalog Shows

U.S. firms may test product interest in foreign markets, develop sales leads, and locate agents or distributors through catalog exhibitions sponsored by the Commerce Department and the U.S. Foreign Service. These exhibitions feature displays of a large number of U.S. product catalogs, sales brochures, and other graphic sales aids at American Embassies and Consulates or in conjunction with trade shows. Each catalog exhibition is prepared by the Commerce Department's ITA industry experts.

An especially innovative and effective kind of exhibition is a video/catalog show. Video tapes take the place of live product demonstrations enabling the exhibitor's products to be explained, demonstrated, and "sold" more economically. The major advantage of the video/catalog exhibition over conventional catalog exhibitions is that it offers the foreign buyer a chance to see products in actual use. You can gain market exposure for products or services without the cost of traveling internationally.

Chapter 6 Worksheet : Pricing and Promoting Your Product
(The pricing of your exports must be established separately for each market.)

1. Pricing Exports

For which market is this evaluation prepared?	________
What is the "normal" price range for your type of product in this market?	________
After stripping your domestic selling price, what is your export base cost?	________
What are the additional per-unit costs related to this market?	________
What is the unit profit you expect to make?	________
Total per-unit cost.	________

	Yes	No
Does your cost fall into the price range you established above?	___	___
Is product modification necessary?	___	___

2. Preparing a Quotation

Did you provide a detailed description of your product?	___	___
Did you quote prices in U.S. currency?	___	___
If this is not possible, is the foreign currency you are dealing with stable?	___	___
Did you include the information on the quotation checklist in this chapter?	___	___

3. Product Promotion

At this time, write an addition to your marketing strategy, deciding how much money you will budget to the promotion of your product in each of your target markets and what direction your promotional efforts will take. Be sure to consult an agency familiar with the promotional channels of the country or do an in-depth market analysis to ensure that your money is being spent effectively.

4. Testing Foreign Markets

	Yes	No
Have you participated in any type of trade shows or missions in your target market(s)?	___	___
Were your products successful?	___	___
Were you offered advice on how to make your products more successful in that market?	___	___
List those suggestions below:		
Did you make any contacts with possible agents or distributors?	___	___
Did you write a follow-up letter to each of those that you felt would be a good representative for your company?	___	___
Are you ready to proceed with your plans to export?	___	___

Chapter 7: Effective Overseas Communication

Communication is an essential component of the export process. Most of your contact with a foreign firm will be through the mail. Your firm's reputation and ability to trade internationally will be judged in part by the image you project in your letters. Therefore, it is very important that you understand the "rules" of international communication.

In some respects, communicating with foreign firms is not all that different than with your domestic clients. For example, both expect a prompt reply to their inquiries. However, with a foreign firm, it is essential that you reply as soon as possible because, depending on the destination, a letter sent by air mail can take 10 days or more to arrive. And although form letters may be accepted as response to a domestic inquiry, more and more international firms are discarding these responses that do not specifically reply to their questions.

There are four major forms of international communication: facsimile messages, letters, telephone calls and telex messages. Below are some guidelines you should keep in mind when corresponding internationally.

- Facsimile (Fax) Messages

International trade experts believe the fax machine is doing more to revolutionize international business than any innovation in recent times. This is because the machine is quite versatile and can be strategically integrated into sophisticated international communications. Fax communications are, by far, the best means of contact with your intentional buyer or agent. Distance and time differences make mail and phone contact difficult as well as time consuming.

With the increased use of fax machines, telex communications will probably become less common in the future. A fax machine can be used to transmit promotional material or a blueprint of an impending conversation. It can also be used to confirm orders, delivery schedules, sales terms and merchandise availability. Moreover, it can be used to exchange information between intermediaries on shipping costs, bills-of-lading, other documents of title and insurance claims. Daily or routine correspondence by fax can save weeks of frustration and facilitate productive dialogue. Faxing on a regular basis alleviates confusion and misinformation. Faxing is also the most cost-effective means for timely communications. Your faxed documents will arrive at their destination as exact duplicates of your original message within minutes.

NOTE: The fax machine has not completely obsoleted air mail or telex machines. These services can complement one another in a variety of ways. Faxing a contract can speed up the deal-making process, but both parties usually prefer to have an original copy of the document in hand. For the immediate future, the telex will probably remain the most commonly used communication system in international commerce. Some of your international clients might still be dependent on telex communications and might not have a fax.

- Letters

Include U.S.A. and fax/telex information in the address, and the name of your bank some place on your business letterhead. This lets the buyer know that you are an experienced exporter.

Misinterpretation can cost money. If you receive an inquiry in a foreign language, find somebody to interpret it for you. Make sure this person is fluent in the language. You may also want to suggest to the inquirer that you prefer to correspond in English. Most will be willing to comply with this request.

If you have access to a translator, prepare your reply in the language of the inquirer. Enclose a copy in English in case something in the translation is unclear.

Do not write a flowery letter. Keep your language as simple as possible. Avoid being too informal and do not use slang.

Do not give measurements in American standards. Metric is the standard of measurement in most foreign countries, so metric dimensions should be provided.

In some countries, direct inquiry into a firm's financial situation is considered an insult, so you may want to obtain this information from other sources such as a bank's international department. (See Chapter 5, "Financial Considerations.")

Send **all** correspondence by air mail and be sure to mark "Air mail" clearly on the envelope. (Surface mail can take weeks or months to reach its destination.) Remember to use the correct amount of postage required for international mail. Also, copy the address exactly as it is written on the initial inquiry.

Sign your letter personally. Form letters give the impression of lack of concern for exporting to and servicing of the prospective customer's market.

If you don't receive a reply within a month, send a follow up letter and enclose a copy of your previous letter.

- Telephones

As a rule, you should restrict yourself to written forms of communication. However, if your business needs dictate the use of international telephone calls, the following checklist should be observed:

- Be aware of time differences and time your calls appropriately.

- If direct dial is available, using it can save a lot of money. Be aware of differences of dial tones, ringing, and other telephone audio indicators.

- Before dialing, have clear, detailed notes in front of you for a well-organized delivery that makes effective use of conversation time. The manner in which you express yourself conveys an indication of your skill and your intelligence. Your story may be the prospect's only clue to your company and your product.

- Check the number and pronunciation of the name of the party you are calling.

- Speak slowly and clearly. Identify yourself and your company. Avoid using slang. Humor varies in different cultures, so your attempts to be funny may come off as insults.

- Be courteous, polite and helpful. An individual's voice often conveys a mental image of the person's personality. Be tactful and observe the rules of good taste.

- Before hanging up, always confirm your understanding of the agreement reached. Clarify matters during the conversation to avoid problems that may arise later due to a misunderstanding.

- Be sure to take notes during the conversation, including the date of the call and the name/title of the person you talked to.

- It is a good idea to send a letter acknowledging the telephone call. Confirm once again the agreement reached and update the firm on the action you have begun taking.

- Telex Messages

Be sure that, in trying to use the fewest words possible, you do not leave out complete information needed to satisfy the intended purpose of the communication.

Whenever possible, use the customer's system of measurement and monetary values.

A NOTE ON FAXES AND TELEXES:

If you are actively pursuing international sales and plan to expand your activities overseas, a fax and/or telex may be worthwhile investments for your firm.

If, however, you currently do a minimal amount of business overseas and do not see this expanding rapidly in the near future, you have an option available to you if you find yourself in need of sending a fax or telex. For example, if you are bidding on a sale and your quote must be received by the foreign company no later than four days from now, you could contact any one of the numerous secretarial/business services which offer in-house fax and telex services. This might be the most effective way to access quick and efficient overseas communication.

RECEIVING AN INQUIRY

When you receive an inquiry, first check to see that the complete address is contained on the letterhead before you throw away the envelope. Do not assume that an inquiry containing many grammatical errors or of poor printing quality is not a promising lead. The writer may know English only as a second language, and in many countries, printing standards are much lower than in the U.S. Despite first impressions, the inquiry may be from a reputable, well-established firm.

Read the inquiry thoroughly. If the letter is written in a foreign language, obtain an expert translation to avoid misunderstandings. Determine what type of quotation is being requested. When preparing your quotation, compute the price according to the terms of the quotation.

Reply to the inquiry promptly. If you cannot send the quotation immediately, acknowledge the inquiry, preferably by fax, so the correspondent knows you have received and are working on the request.

Before sending a response, check your correspondence to be sure you responded to all questions raised in the inquiry. Your letter should contain full information on your product, its price and a delivery time frame, so the customer will not have to write you again before placing an order. If possible, send a pro forma invoice (see Chapter 6, "Pricing and Product Promotion"), with a c.i.f. price quote.

Send product literature and clearly explain any technical aspects with which the potential customer may not be familiar.

If you use technical terminology, make sure it has the same meaning overseas. Provide information on the servicing of your product as well as spare parts, etc.

If this inquiry is the first contact you've had with the foreign company, introduce your firm. Establish your firm as a reliable supplier. Provide them with names of some of your present customers as well as bank references.

RECEIVING AN ORDER

When an order is received, verify whether or not you are able to comply with its terms. Acknowledge the order and stipulate any deviations or corrections.

Make sure all personnel involved in processing the order fully understand the deadlines and the functions they are to perform.

If payment is by letter of credit, check carefully as soon as it is received. If you are unable to comply with its terms, or the terms stated are not those previously agreed upon, request an amendment immediately.

As soon as you know the date on which the order is to be ready for shipment, contact an international freight forwarder and arrange the shipping schedule. Make sure all the necessary shipping instructions and documents are completed correctly and distributed on time. Finally, prepare and submit collection documents to receive payment for the order.

Chapter 7 Worksheet : Effective Overseas Communication

1. Communicating

	Yes	No
Do you have a high-enough volume of overseas communication to make buying a fax machine and/or telex cost-effective?	___	___
If making a telephone call to an overseas customer, is it absolutely necessary? (A written, faxed communication is more difficult to misunderstand.)	___	___
After communicating with an overseas customer, have you written to reaffirm the agreement you feel was made?	___	___
If you received an inquiry in a foreign language, did you have it translated by someone fluent in that language?	___	___

2. Receiving an Inquiry

Is this the first contact you've had with this firm?	___	___
If so, did you provide complete information on your firm in your reply?	___	___
Are you clear about what type of quotation is being requested?	___	___
If necessary, did you contact a freight forwarder or someone with export knowledge to help you calculate your prices according to the terms of quotation?	___	___
Did you reply promptly, providing the inquirer with all the requested information or an explanation of why it is unavailable at this time?	___	___

3. Receiving an Order

Can you comply with the stated terms of the order and the method of payment?	___	___
Did you acknowledge the order, stating any changes you want made in the terms?	___	___
Have you informed your personnel of their duties and the time frame in which they must be completed?	___	___
Are you using a freight forwarder to arrange the shipment and documentation of your cargo?	___	___

	Yes	No
If not, have you reserved space for your cargo on a vessel?	___	___
Have you filled out <u>all</u> the necessary documents accurately, completely, and in the time required?	___	___

PART III:

MECHANICS

Chapter 8: Packing and Marking Your Product

Scenario: You received a request for a quotation from an overseas firm, and you have sent a pro forma invoice stating your prices and delivery terms. The firm has decided to place an order with you following the terms you set forth in the pro forma invoice. Your staff is manufacturing the product to have the order ready on time. Now what?

You are now at the point where you must consider the physical movement of your product. This section looks at the methods of transportation available, and the requirements of packing and documenting your merchandise before shipment.

PACKING

Shipping products overseas creates needs not usually encountered in domestic shipping. When designing an export crate, there are four problems you should keep in mind: breakage, weight, moisture, and pilferage.

Export cargo not only undergoes the same handling as does a domestic shipment, but once it reaches the port of export, it can be subjected to quite a bit more wear and tear. Ocean freight is loaded aboard vessels with slings, in a net with other cargo, by conveyor, chute or other methods. This puts an extra strain on the packaging. Cargo may be stacked on your crate and it may encounter violent shifting during passage. Overseas, the facilities may be rudimentary, and cargo may be dragged, rolled or dropped before reaching its final destination.

There are a number of steps you can take to help prevent breakage during the handling of your product. You should skid heavy crates, have provisions for forklift trucks, and provide notches to facilitate the use of slings. When constructing an export crate, use cement-coated nails which hold better than regular nails. Bracing your wooden crates and unitizing and palleting your cartons will give your packaging a much better survival rate. Banding and strapping add extra strength to a package and also help prevent pilferage.

Breakage increases in direct proportion to the amount of handling a product receives. This is one reason for the rise in the use of "containerization" as a shipping method. Cargo is loaded into standardized containers which can be transferred from truck or rail car to ship without opening, and retransferred for domestic shipping upon arrival overseas.

To decrease the amount of handling necessary for bagged goods, be sure they are marked on both sides. When shipping large quantities of bagged goods, extra bags slightly larger than the originals should be included in case of breakage.

Liquid cargo drums should not be completely filled to allow for expansion and to avoid rupturing in case of impact during shipment.

Avoid overpacking or using heavy packing materials. Some countries assess Customs duties on the gross weight, and not the value of a package. Also, added weight can cause you to pay higher inland-freight charges.

Moisture presents a constant problem in ocean freight, even if cargo is transported in ships equipped with air conditioning and dehumidifiers. The cargo may be unloaded in the rain, and it may be left in an uncovered storage area. This also presents an additional problem of theft or pilferage.

Use waterproof liners, moisture-absorbing agents and rust-inhibiting coatings to protect against moisture damage. Crates and large containers, especially those carrying metal products, should be equipped with drain holes in the bottom. Metal items are likely to collect condensation or "cargo sweat" while stowed in the ship's hold. "Shrink-wrapping," a method of covering your box or crate with a light, plastic film, can prevent both moisture damage and pilferage.

As a further safeguard against pilferage and theft, avoid too-descriptive labeling about the product and don't use well-known trade marks on the exterior of the export package.

MARKING

Buyers will usually specify the export marks to be used to make identification easier upon arrival of the packages. These marks also help the carriers make sure the packages reach the right destination.

All markings should be stencilled in waterproof ink on the top and two adjacent sides of the package. These marks should include the name of the purchaser, the company address, an indication of the package's origin, and the port of destination Also include the package number and total number of packages (i.e. 2 of 5), the gross and net weights; and the package dimensions. Any special handling instructions should be included. Use standard international shipping and handling symbols to ensure your instructions are understood. (See examples on next page.)

If you need advice in packing or marking your product,

contact your freight forwarder (discussed in more detail in Chapter 10), your carrier, a marine insurance company or an export packing company.

For a thorough explanation of export shipments beginning with a methodology for understanding, evaluating and locating freight forwarders, contact

International Trade Institute
5055 North Main Street
Dayton, OH 45415
Tel: (513) 276-5995, or
(800) 543-2453

to purchase A Guide to International Shipping.

This guide provides explanations of both ocean and air tariffs, information on how to obtain international freight quotations, and information on how to label and pack cargo. It also describes the usage of ocean/air containers, common aircraft and ocean vessels. Most importantly, it gives actual examples of major shipping documents.

Chapter 8 Worksheet : Packing and Marking your Product

1. Packing

	Yes	No
If your product is fragile, have you designed your export packing to adequately protect it?	___	___
Will cargo sweat or will rain damage your product?	___	___
Have you taken safeguards against this?	___	___
Crated, will your product be heavy?	___	___
Have you made provisions for the use of slings or forklifts?	___	___
Have you looked into containerizing your product for shipment?	___	___
If shipping bagged goods, have you included extra bags in case of breakage?	___	___
Are you considering shipment by air? (This will reduce the amount of packing necessary.)	___	___
Have you taken precautions against theft or pilferage?	___	___

2. Marking

	Yes	No
Have you included all export marks requested by the buyer on the package?	___	___
Did you use waterproof ink, marking the top and two sides of the container?	___	___
Did you include any special handling marks necessary?	___	___
Did you avoid detailed descriptions of your product?	___	___
Do you feel comfortable packing and marking your product without expert advice?	___	___

Chapter 9: Export Documentation

In exporting, there are two types of documents. Shipping documents permit shipments to pass through customs, be loaded onto a carrier, and shipped to a foreign destination. Collection documents are presented to a customer or the customer's bank to receive payment for a shipment. Accuracy is essential when filling out these documents. If you have any questions or problems, it is strongly advised that you obtain expert counselling. Documentation is one of the largest problem areas for new-to-export firms.

You will usually need to send documents to a number of parties: the consignee or importer, an overseas agent, the shipper, etc. Make sure you have sufficient copies of each document to provide one to those who must have them. Contact your freight forwarder if you need advice concerning the documentation of your export shipment.

SHIPPING DOCUMENTS

The Export Administration Regulations is the official U.S. government publication that lists the rules and regulations controlling the export of U.S. goods and services. A copy of this publication is essential for keeping abreast of U.S. export regulations and to be certain that the export of controlled goods and services are in compliance with U.S. law. Once exporters purchase this publication, they will receive periodic **Export Administration Bulletins** at no extra charge.

All exports must have an export license, except for some commodities sold to Canada.

A **Shipper's Export Declaration (SED)**, Document No. 4, is required by the U.S. Department of Commerce to control exports and act as a source for export statistics. It includes complete particulars on the shipment.

There are two types of **export licenses:** 1) **Individual Validated Export Licenses (IVLs)**, and 2) **General Licenses.** For certain commodities, such as strategic materials or those in short supply, you must obtain an IVL from the Department of Commerce's Bureau of Export Administration in Washington, D.C. Most exports are covered by one of several General Licenses, which are published authorizations to cover the export of commodities not subject to a validated license. You do not need to submit a formal application or receive written authorization to ship these products (which cover most exports). They can be

shipped by inserting the correct General License symbol on your Shipper's Export Declaration. For licensing questions, contact the nearest District Office of the U.S. Department of Commerce or contact

Bureau of Export Administration
Exporter Assistance Staff, Room 1099D
U.S. Department of Commerce
Washington, D.C. 20230
Tel: (202) 377-1455,

or for West Coast exports, contact

USDOC-Western Regional Office
Office of Export Licensing
3300 Irvine Blvd., Suite 345
Newport Beach, CA 92660
Tel: (714) 660-0144.

An antidiversion or destination control clause must be shown on ocean or airway bills-of-lading and invoices. This clause permits the distribution and resale of the merchandise to all destinations except those specified.

COLLECTION DOCUMENTS

In exporting, a **commercial invoice** should contain all the information as on a domestic invoice such as the full address of the shipper, seller and consignee (if different); reference numbers; date of order; shipping date; mode of shipment; delivery and payment terms; complete description of the merchandise; and prices, discounts and quantities. Be sure that this information agrees with the information on your pro forma invoice, unless you have already contacted the buyer about changes. The invoice must also specify the export marks used on the containers, the origin of the goods and an antidiversion clause. If payment is being made by letter of credit, it should contain a reference to the bank, credit, or advice numbers. Occasionally, a country requires additional certification. Check with your nearest USDOC District Office for special requirements.

Some countries, especially those in Latin America, require a **consular invoice** in addition to a commercial invoice. This governmental control document must be prepared in the language of the country on official forms provided by their consulates, and visaed by the resident consul to certify the authenticity and correctness of the information.

Some countries require a separate **certificate of origin** for merchandise even though the commercial invoice may state the origin of the goods. This statement is required to indicate preferential rates of import duties under the "most-favored-

nation" arrangement.

Bills-of-Lading: There are two basic types of ocean or overland (truck or rail) bills-of-lading or air waybills: "straight" and "order."

A "straight" or non-negotiable bill-of-lading is made out to the order of the foreign consignee and indicates that the common carrier will deliver the goods to the consignee. The straight bill-of-lading cannot be transferred to any party other than the one designated. Therefore, this form of bill-of-lading should only be used when the payment for the goods shipped is certain.

When using an "order" or negotiable bill-of-lading, the exporter retains title to the goods until the importer has met certain conditions. The common carrier delivers the goods to the shipper, a bank or some other third party. The bill-of-lading is endorsed over to the importer after acceptance of documents or payment is made.

The bill-of-lading defines the terms of contract between the shipper and the carrier, serves as the receipt for shipment of the goods and transfers the title of ownership of the goods to the buyer once payment is made.

The only bill-of-lading acceptable for payment against draft or letter of credit is one marked **"clean-on-board."** This means that the carrier has not found anything noticeably wrong with the cargo or its packing and that the merchandise has been loaded aboard the carrying vessel.

An air waybill is similar to a bill-of-lading, but is not a negotiable instrument, and is generally not used for collection purposes unless required by special circumstances and the shipper has received airport approval.

Dock or warehouse receipts may be requested in place of a bill-of-lading when the shipper is only responsible for delivering the goods to the U.S. port of export. The receipts stipulate that the merchandise has been received at the pier or warehouse.

Inspection certificates are requested by many foreign firms to protect themselves. An inspection is conducted either by the shipper or an independent inspection firm, according to the buyer's preference, to certify that the quality and the quantity of the goods conform to what was ordered.

Phytosanitary (Plant Health) inspection certificates are generally required to accompany the shipment of plants and unmanufactured plant products to ensure conformity with plant quarantine import regulations. Certificates are issued based

upon inspection and the determination that the commodity is substantially free from pest and plant disease considered harmful by the destination country. They are not, however, used to fulfill contract obligations or to certify the grade or quality of the goods shipped. For more information, contact Plant Protection and Quarantine Programs (PPQ), Animal and Plant Health Inspection Service (APHIS), U.S. Department of Agriculture, Regulatory Support Staff, Room 637 Federal Building, Hyattsville, MD 20782. You can also contact the Montana Department of Agriculture, Plant Industry Division, Capitol Station, Helena, MT 59620, telephone (406) 444-3730.

If the seller is responsible for insuring the shipment, he must provide duplicates of the **insurance certificates** to the buyer stating the type and amount of insurance purchased.

Chapter 9 Worksheet : Export Documentation

	Yes	No
Besides the usual export documents (Shipper's Export Declaration, General Export License, bill-of-lading, commercial invoice, insurance certificate), are there special documents for your shipment required by the nature of your product or the country of import?	___	___
Have you been informed of how many copies you need of each document, and have you prepared this amount?	___	___
If you are responsible for insurance, did you provide the buyer with a duplicate of the certificate of insurance?	___	___
Do you feel comfortable with your ability to accurately prepare the necessary export documents?	___	___
If not, have you consulted your banker or international freight forwarder for assistance?	___	___

Chapter 10: Transportation

FREIGHT FORWARDERS

If you have not already done so, now is a good time to become acquainted with the services offered by an international freight forwarder. An international freight forwarder acts as your agent in the movement of cargo overseas. With the exception of air freight or shipments to U.S. territories and Canada, it is recommended you employ a freight forwarder licensed by the Federal Maritime Commission. These agents are familiar with both U.S. and foreign rules and regulations as well as documentation requirements for overseas shipments. For referrals of licensed freight forwarders, contact

Federal Maritime Commission
1100 L Street, N.W.
Room 10205, Code 64
Washington, D.C. 20573
Tel: (202) 523-5843.

A freight forwarder can help you with almost every step of your export transaction. Prior to preparing a quotation, they can supply you with estimated freight costs, port charges, consular fees, costs for insurance, special documentation, and handling fees. They can assist you in properly packing your merchandise for export or can arrange to have it packed or containerized at the port of export. They can also advise you on the marking and labelling requirements for your shipment.

Once you are prepared to ship your goods, your freight forwarder can review your letter of credit and packing list for compliance with the terms indicated. They can arrange for marine insurance, and they can reserve space on a vessel for shipment by the date necessary. They can also arrange for inland transportation here and abroad.

When your merchandise arrives at the port of export, a freight forwarder makes arrangements for it to clear Customs and for it to be delivered at the pier in time to be loaded on the vessel as arranged. They may also prepare the ocean bill-of-lading and any other special documentation required.

After shipment, a freight forwarder will forward all necessary collection documents to the customer or customer's bank with instructions for payment.

IMPORTANT: Because a freight forwarder can play such a major role in your export operations, it is important to select one carefully. Compare the rates charged by several different forwarders and what services you can expect to receive. Contact references provided to you by the forwarders for an evaluation of the services and ask for recommendations from experienced exporters and overseas distributors.

TRANSPORTING GOODS

In transporting your product to foreign destinations, you can ship by air, land, or sea. Your decision on which mode of transportation to use depends on where you are shipping your goods, how soon they must reach their destination, the physical characteristics such as the weight and bulk, and the cost of your product.

- Ocean freight

Ocean freight accounts for the greatest tonnage of goods shipped to and from the United States. There are three basic types of ocean carriers available to the exporter: 1) conference lines, 2) independent lines, and 3) tramp vessels.

An **ocean freight conference** is an association of ocean carriers who have established common freight rates and shipping conditions. They generally have a dual rate system: a regular tariff and a lower rate for contract shippers. Contract shippers must promise to ship all or a large percentage of their exports on conference vessels. If none are available on the necessary shipping date, a non-contract vessel may be used after receiving permission from the conference.

Independent lines operate and quote rates individually. They accept bookings from all shippers on a space-available basis. They don't require dual-rate contracts and will generally quote rates 10% below conference non-contract rates. Both conference and independent lines operate on regular, established routes.

Tramp vessels have no established schedules, operating on charters wherever they can get cargo. They usually only carry bulk cargo.

With any mode of transportation, you will generally be issued a **booking contract** which reserves space for your cargo on a specified vessel. This contract allows the shipper to charge you for the space reserved, even if you decide not to ship your product. The shipper can also cancel your booking if notice is given far enough in advance for you to re-book space on another vessel.

- Air transportation

Air freight traffic is being chosen more frequently as the method of transportation for exporters of perishable items and manufacturers of high technology items whose products have a high value relative to the weight and that have enough profit margin to allow for more costly transportation. Manufacturers may choose air freight to replace broken machine parts, respond to unforseen product demand, or reduce their inventory control costs overseas.

As the amount of air freight traffic increases, improvements continue to be made. New air carriers have larger cargo capacities, and many airports have updated their facilities with new equipment designed to load cargo more efficiently.

- Land transportation

Except for shipments to Canada and Mexico, land transportation is usually limited to the shipment of your product to a U.S. port of export. Inland transportation of export items is similar to that of domestic shipments. Your bill-of-lading, however, must include the export marks for your shipment, an antidiversion or destination control statement for export control, as well as the name of the export carrier and the latest possible date your cargo can arrive at the port. You should also arrange to have the inland carrier contact your international freight forwarder when your cargo has reached the port of export.

NOTE: Be sure to arrange your shipping schedule so that your product is at the port of export in time to be loaded onto the vessel you have booked. However, you will have to pay additional storage charges if your product arrives too early.

- Export packing list

An export packing list should be contained in or attached to the outside of one package of your export order in a waterproof envelope marked "packing list enclosed." An export packing list contains quite a bit more information than a standard domestic packing list. It itemizes the material in each package individually, indicates the type of package (box, crate, drum, etc.) and shows the individual net, legal, tare, and gross weights and measurements for each package. It should also include export markings of the packages and the shipper's and buyer's references.

The packing list is used by the shipper or forwarding agent to ascertain the total shipping weight and volume in order to reserve shipping space. It is also used at the port of export as a check-off list to determine that the correct cargo has been received. Customs officials at both the U.S. port of export and

the foreign port of import use the export packing list to check the cargo. Finally, the list is used by the buyer to inventory the merchandise received.

- Cargo insurance

It is unwise to ship cargo overseas without some form of insurance. Ocean marine cargo insurance provides important protection for U.S. exporters against damaging weather conditions, rough handling by carriers and other common hazards to cargo. There are two basic forms of marine insurance: one-time insurance policies and blanket policies.

A special one-time cargo policy insures a specific shipment against loss. This type of policy is more expensive than a blanket policy because the risk cannot be spread over several shipments. This policy is practical for those whose export business is infrequent.

More frequent exporters may choose an open, or blanket, cargo policy. Under this insurance policy, all cargo moving at the seller's risk is automatically insured. This policy is effective continuously until cancelled.

When you are responsible for the insurance, you have a choice of taking out your own insurance or being insured under your freight forwarder's policy for a fee. If the terms of sale make the foreign buyer responsible for the insurance, you may wish to guard yourself against his failure to obtain adequate coverage or any insurance at all, for if the buyer fails to insure the shipment, you may find yourself with a large financial loss.

To safeguard against such risks, contingency insurance is often recommended. If the cargo is lost or damaged a contingency policy allows the exporter to file a claim on goods if the buyer has failed to adequately insure them. The premiums on contingency policies are generally one-third the cost of a normal insurance policy.

Chapter 10 Worksheet : Transportation

1. Freight Forwarders

List those services that you require from a freight forwarder.

	Yes	No
Have you compared the costs and services of several firms?	___	___
Have you obtained references and chosen a freight forwarder who comes highly recommended?	___	___

2. Transporting Goods

Are you limited in your choice of transportation modes due to time, physical or geographical constraints?	___	___
Have you thoroughly weighed the advantages and disadvantages associated with each method of transportation?	___	___

Which method did you choose? (Remember each shipment has a different set of circumstances, so what is right now, may not be right for the next.)

Have you attached a detailed packing list to your shipment?	___	___
Did you arrange for adequate cargo insurance?	___	___
If the buyer is responsible for the insurance, have you obtained contingency insurance?	___	___

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